HOUSE OF COMMONS
CANADA

BUILDING CLOSER ECONOMIC TIES AROUND THE WORLD: IMPROVING CANADA'S TRADE AND INVESTMENT RELATIONS WITH THE ARAB STATES, THE EU AND SOUTHEAST ASIA

Report of the Standing Committee on International Trade

Lee Richardson, M.P.
Chair

December 2007

39th PARLIAMENT, 2nd SESSION

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has the honour to present its

SECOND REPORT

Pursuant to its mandate under Standing Order 108(2), and the motion adopted by the Committee on Tuesday November 20, 2007, the Committee has studied Canada's Trade Relations With Key Foreign Markets and has agreed to report the following:

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INTRODUCTION

From June 3 to June 14, members of the House of Commons Standing Committee on International Trade conducted two separate fact-finding missions to some of Canada's major priority markets around the world. One group traveled to the Arab States, specifically to Saudi Arabia, Yemen and the United Arab Emirates (UAE), and to Brussels in the European Union (EU), while the other traveled to Southeast Asia — Singapore, Indonesia and Vietnam.

Why did we choose these regions?

There are a number of reasons why the Committee chose to travel to the Arab States, Southeast Asia and the EU. First, Canadian businesses and the Department of Foreign Affairs and International Trade (DFAIT) have both identified these regions as priority markets. During the Committee's recent hearings on Canada's trade policy, business leaders in particular stressed the need for the Committee to visit the Arab States and Southeast Asia.

Their reasons for doing so were simple. The Arab States and Southeast Asia are dynamic, fast-growing regions with considerable economic potential, but where Canada's presence is below what it should be. It is precisely in markets such as these where the prospects for expanding trade and investment are the best and where a visit by the Committee on International Trade would have the greatest positive benefit.

To be sure, there are larger markets out there. Some may wonder why the Committee did not travel to China, India or Brazil — the three largest developing economies in the world. Part of the reason is that there is no shortage of information about those countries. Litres of ink have been spilled in analysis of the economic opportunities and challenges in China, India and Brazil. Far less is known about the Middle East and Southeast Asia.

Furthermore, the Committee has conducted studies in the past five years that have seen it travel to all three of the largest developing economies. Of the countries visited on these most recent trips, the only return visit was to Singapore.

It is also worth noting that Canada is already engaged with China, India and Brazil. By contrast, government-level contact with the Arab States or much of Southeast Asia has been more limited. Indeed, during our trip to Saudi Arabia, we learned that our visit was the first by Canadian Parliamentarians to that country in four years. In our view, a trip to the region was long overdue.

Purpose of Travel

The purpose of our trips was to raise the profile of Canada in these markets and to work towards improving trade and investment linkages. To that end, we had several specific objectives: to learn about the economic opportunities in these parts of the world, as well as the unique challenges in each country; to help build stronger government-to-government ties; to open doors for Canadian businesses; and to send the message that Canada is interested in doing business.

Unlike most other Committee travel, these trips were not associated with a specific Committee study. Rather, they are a direct result of one of the key findings in our most recent major study, *Ten Steps to a Better Trade Policy*, presented to the House of Commons on May 1, 2007.

One of the conclusions of that report, the result of months of testimony from Canadian stakeholders and foreign government representatives, was that the Government of Canada plays an important role in improving trade and investment ties around the world. Specifically, the government needs to be more active internationally. It needs to greatly increase the number of high-level official and political visits to key markets around the world, as well as to make a stronger effort to invite official delegations and foreign political leaders to Canada.

This message runs counter to conventional wisdom and practice in Canada. Canadians are not used to thinking of their politicians as trade and investment promotion agents. Many Canadians see trade and investment as the exclusive domain of business; governments are responsible only for creating and regulating the environment in which international commerce takes place. Any international government travel that extends beyond that narrow scope is often criticized as being a wasteful political junket.

This view may be common in Canada but, as we learned, is not widely shared around the world. Over the course of its hearings on Canada's trade policy, the Committee was struck by the frequency with which it heard the message that in many of the world's most dynamic economies, there is a critical role for governments to play in trade and investment promotion. We need to be sensitive to these cultural differences in how business is conducted around the world. To ignore them does a great disservice to Canadian businesses and limits the long-term growth prospects of the Canadian economy.

Moreover, the view that political travel is wasteful is also not shared by the Canadian business community. Business associations and leaders repeatedly asked us for our help. They were adamant that if government officials and elected members enhanced their physical presence around the world, improved trade and investment linkages around the world would follow.

One of the most important ways in which trade and investment links are forged is on the foundation of closer political ties. Trade and investment in many countries is built on relationships; not just business-to-business contacts, but government-to-government ties as well. Frequent government contact, whether at the political or executive level, not only builds goodwill and trust, but also sends an important signal: this relationship matters.

Unfortunately, the relative absence of such government contact has meant that Canada is inadvertently sending specifically the wrong message to many countries around the world. As stated in *Ten Steps to a Better Trade Policy*, we heard that "[B]y not actively traveling abroad to cultivate stronger relations, Canadian Parliamentarians are signalling that Canada is not interested in building closer economic ties around the world."[1]

Canada's international competitors have been quicker to learn this lesson and are profiting as a result. Countries like Australia, Spain, France, the UK, China and others regularly send delegations abroad to promote their businesses and to build government-to-government relations. We learned, for example, that Spain sent 42 delegations to Saudi Arabia in 2006 alone. Evidence of Canada's interest in building economic ties with that country came in the form of a single trip consisting of two companies.

Structure of the Report

This report is divided into two sections, corresponding with the two concurrent trips undertaken by Committee members. The first section is the report of the Committee members who travelled to the Arab States and the European Union. It provides an appraisal of the opportunities and challenges in those regions and also includes policy recommendations to the Government of Canada on how economic relations with each might be improved. The second section of this report does likewise for the trip by Committee members to Southeast Asia.

1 *Ten Steps to a Better Trade Policy*, Report of the House of Commons Standing Committee on International Trade, April, 2007, p 6.

THE ARABIAN PENINSULA

A. Introduction

1. Regional Overview

The Arabian Peninsula is a mostly desert region of the Middle East, bordered on the west by the Red Sea; by the Persian Gulf and the Gulf of Oman on the east; Jordan and Iraq on the north; and the Gulf of Aden and the Arabian Sea on the south. Seven countries are considered to be part of the Arabian Peninsula: Saudi Arabia, the United Arab Emirates, Yemen, Oman, Qatar, Kuwait and Bahrain.

The Arabian Peninsula is a region of major religious, cultural and geopolitical importance. Not only is it the focal point of the Islamic world — the two holy cities of Mecca and Medina are both located in what is now the Kingdom of Saudi Arabia — but given its abundance of crude oil, it is an important economic player as well. About 22% of global oil production comes from the Arabian Peninsula, and the region is home to the world's largest known conventional crude oil reserves.

Largely discovered in the 1930s, this energy wealth has translated into a remarkable economic transformation in a relatively short period of time in most countries in the region. We heard that Saudi Arabia, for example, had gone from "camel to Cadillac in a single generation." Total economic output in the region, adjusted for purchasing power, was about US$631 billion in 2006, equivalent to the gross domestic product (GDP) of Turkey, the world's 14th-largest economy (not including individual members of the EU).

Today, the Arabian Peninsula is home to about 61.5 million people, approximately equivalent to the population of Italy, or that of the United Kingdom (UK). Unlike the UK and Italy, however, the population of the Arabian Peninsula is growing rapidly. High birth rates in the region, aided by a growing cohort of foreign workers, have created a young and fast-growing population. With the exception of Bahrain, where population growth is lower than elsewhere in the region, the rate of population growth ranges from 2.1% per year in Saudi Arabia to 4.0% per year in the UAE. By comparison, population growth in Canada is about 0.86% per year, meaning that even in Saudi Arabia, the population is growing more than twice as quickly as in Canada.

Not only is the Arabian Peninsula's population expanding rapidly, but the region is in the midst of an economic boom that, we were told, was virtually unprecedented in its history. The high oil prices of the past few years have generated tremendous economic growth and wealth, especially for the region's governments for whom oil royalties and related income account for the lion's share of budgetary revenues.

Overflowing coffers have given governments the means to address a number of outstanding issues in their economies. While the pressures of population growth and regional economic integration (discussed below) are high on the list of these issues, first among them is the region's excessive reliance on oil. Economic activity on the Arabian Peninsula is highly cyclical, ebbing and flowing with the price of oil. In many countries, therefore, the current royalty windfall is being used to invest outside of oil extraction and transportation, in an effort to diversify their economies and lessen their dependence on oil. As such, hundreds of billions of dollars are being invested across the region in areas like infrastructure, tourism, trade and commercial services.

2. Overcoming the Challenges and Negative Perception of the Region

Committee members who travelled to the Arabian Peninsula were struck by the wealth of economic opportunities in the region. With hundreds of billions of dollars of planned and proposed investments in the region in the near future, if Canadian enterprises were to capture even a small fraction of that investment, or the trade in associated services and materials, the positive impact on the Canadian economy would be considerable.

However, in order to do so, Canadians must overcome their reservations about doing business in the region. It goes without saying that the Arabian Peninsula suffers from an image problem in much of the western world. To be frank, many Canadian businesses are reluctant to explore the trade and investment opportunities there because the region is considered to be unsafe and is associated with political instability, a lack of religious freedoms, human rights abuses, social and economic restrictions on women, and Islamic extremism.

In many cases, the image Canadians have of the Arabian Peninsula is inaccurate, particularly as it relates to violence, religious extremism and political instability. This perception is based not on the Arabian Peninsula itself, but is largely a function of the region's proximity to legitimately unstable countries like Iran, Iraq and Syria.

Within the Arabian Peninsula there is, in fact, very little political instability or violence. Government regimes are secure, borders are stable, relations with neighbouring countries within the peninsula are excellent, and internal conflict is limited. Only in Yemen is there any active resistance to the national government; however even this resistance is isolated to the northern mountains and is not of immediate concern to most of the Yemeni population.

The fact that the Arabian Peninsula is associated with political instability is, in our view, unfortunate. Conflict in Iraq and deteriorating relations between Iran and the West cast a shadow over the entire Arab world, thus affecting how many westerners perceive stable countries like Qatar, Kuwait or the UAE. In most cases, the only threat of instability on the Arabian Peninsula comes from how those countries might be targeted by developments such as a resurgent and potentially aggressive Iran.

There can be no denying that religious extremism and anti-West sentiment exists on the Arabian Peninsula. Saudi Arabia in particular suffers from the distinction that it was home to the terrorists responsible for the September 11th, 2001 attacks on the United States.

However, the actions of a few individuals do not represent the prevailing mindset in Saudi Arabia, or that of the region as a whole. Terrorist cells and Islamic extremism exist in pockets around the world, including in Europe and North America. These individuals no more reflect the countries in which they live than they do the vast majority of religious observers whom they purport to represent.

In fact, governments in the Arabian Peninsula have proven to be eager to co-operate, and build closer economic ties, with the western world. The region is in the midst of one of the most prosperous periods of economic growth in its history. It would certainly not be in any country's best interests to support anti-west terrorist groups and activities.

While Canadians' concerns about political instability on the Arabian Peninsula are largely overstated, it is fair to say that their perceptions about differences in culture and religious observance are not. The tenets of Islam dominate day-to-day life on most of the Arabian Peninsula. This is especially true of Saudi Arabia which is the most religiously conservative country in the region. Committee members heard that, for those raised in a Western, pluralistic society, the cultural differences — the restrictions on religious observance, the activities and dress of women, the availability of social activities, etc. — are as significant as the economic opportunities are considerable.

Committee members heard repeatedly that Canadian business people should not underestimate the toll that these cultural differences can exact; Arab culture, and the business environment, is friendly and welcoming but restrictive by Canadian standards. Indeed, we met many foreign business people who had operations in Saudi Arabia or elsewhere in the region, but maintained a residence in Dubai – by far the most liberal city in the Arabian Peninsula – to house their families and to which they would return on weekends.

Indeed, the UAE, and Dubai in particular, are doing much to change the image of the Arabian Peninsula in Canada and across the Western world. The UAE is garnering an international reputation as a business and transportation hub, as well as a vacation destination — an increasing number of major international sporting events are taking place in the country; a multitude of shopping and entertainment complexes are being built; and no less than half a dozen world class museums (including one in partnership with the Louvre) are under construction in Abu Dhabi. As perceptions of the UAE change, this can only help the image of the region as a whole in Canada.

B. The Gulf Cooperation Council

Six of the seven countries on the Arabian Peninsula are members of the Cooperation Council for the Arab States of the Gulf, also known as the Gulf Cooperation Council (GCC). Only Yemen, by far the poorest country in the region, is not part of the GCC, although it does participate in some GCC initiatives.

The GCC is a regional integration organization, like the European Union. Created in 1981, its main objectives are to:

> effect coordination, integration and inter-connection between Member States in all fields, strengthening ties between their peoples, formulating similar regulations in various fields such as economy, finance, trade, customs, tourism, legislation, administration, as well as fostering scientific and technical progress in industry, mining, agriculture, water and animal resources, establishing scientific research centres, setting up joint ventures, and encouraging cooperation of the private sector.[2]

Not long after the GCC was established, it became a free trade area. For the next 20 years, however, only modest progress was made in terms of further economic integration. This changed in 2003 when the six countries agreed to form a Customs Union: GCC members eliminated tariffs on all trade between member countries; established a common external tariff (CET); and allowed for free movement of capital within the bloc.

Economic integration plans are expected to continue in the coming years. We heard that the GCC is currently working towards the establishment of a common market; by the end of 2007, it is expected that all people and goods from GCC countries will be accorded national treatment within the bloc. In addition, plans are in place to establish a common currency by 2010 – although we learned that Kuwait and Oman have, for political reasons, opted out of the common currency for the time being. On top of formal integration mechanisms, GCC countries are also working to improve regional linkages more directly, through shared infrastructure and other development projects. For example, the GCC is exploring the possibility of building a series of rail lines that would link all six countries.

2 Taken from the official website of the GCC : http://www.gcc-sg.org/Foundations.html.

1. GCC External Trade and Investment Policy

The GCC is a relatively open market. It actively seeks to attract foreign direct investment (FDI) and maintains a low common external tariff. For most products, this tariff is only 5%, but because the region does not have a significant manufacturing base, goods that are inputs to production may be imported tariff-free.

Under the terms of the GCC customs union, countries are permitted a number of exceptions to the 5% tariff; each can impose a higher or lower tariff as domestic policy priorities warrant. Although exceptions differ from country to country, generally higher tariffs are applied to items forbidden or frowned upon by Islam: pork, alcohol and cigarettes. In some cases, there are additional duties on certain locally-produced agricultural products. Conversely, a number of GCC countries, not known for their fertile lands, offer tariff-free access for basic foodstuffs.

The GCC places a high priority on liberalized trade agreements with third-party countries. It is in the midst of an ambitious series of negotiations with several countries and regional groupings, including China, India, the EU, Japan, Australia, the Southern Common Market (Mercosur), Jordan, Turkey, New Zealand, Singapore and, most recently, South Korea. However, the GCC has had decidedly mixed results in concluding these agreements. It successfully completed a free trade agreement (FTA) with Syria in 2005 and is close to finalizing its agreement with New Zealand. However, negotiations with the EU, although expected to be concluded in 2007, have been underway for over 20 years without resolution.

One of the practical challenges facing the GCC's FTA negotiations is the fact that not all countries in the bloc have the same interests. This has not only contributed to the delay in completing free trade negotiations, but has also prompted two countries, Bahrain and Oman, to act outside of the GCC and negotiate bilateral FTAs with the United States.

These agreements have caused no small amount of tension within the GCC. Saudi Arabia maintains that these bilateral FTAs violate the GCC customs union because Bahrain and Oman did not negotiate from within the GCC bloc. Saudi Arabia has pointed out that U.S. goods can enter its country tariff-free via Bahrain, but subject to the 5% duty if imported directly or, for example, from the UAE. This compromises the very principle of a common external tariff that the region has worked to implement. Questions have been raised as to the motive of the United States in implicitly driving a wedge between the GCC countries.

However, the GCC is working to reassert its position that the Gulf States must negotiate trade liberalization agreements as a bloc. Bahrain has recently explored the possibility of a free trade agreement with Thailand, but those talks have been terminated as the other GCC members have indicated that any free trade negotiations must be undertaken with the GCC members acting as a single body.

2. Canada's Trade and Investment Relationship with the GCC

Canada's economic relations with the GCC are limited at present, but are growing rapidly. Statistics Canada data indicate that merchandise trade was stagnant through most of the 1990s, but both exports and imports began to grow rapidly early in the present decade. From a value of $1.0 billion in 1999, two-way merchandise trade reached a record $3.6 billion in 2006, more than tripling in just seven years. This $3.6 billion total is relatively evenly divided between exports and imports: Canadian exports to the region in 2006 are measured at $1.6 billion, while imports were $2.0 billion.

To put these figures in perspective, if the GCC were considered as a single economy, it would have been Canada's 15th largest export destination in the world in 2006 (10th largest if the EU was counted as a single entity). However, of the 14 countries to which Canadian exports are higher, only to India has export growth been stronger in the past five years. Canadian merchandise export growth to the GCC is outpacing export growth to rapidly-expanding markets like China, Mexico and Brazil.

As a single economy, the GCC would have been Canada's 20th largest source of imports in 2006. As with exports, the rate of growth in imports from the GCC is significantly higher than it is from most other countries. Of Canada's major sources of imports, only China, Algeria and Peru have grown more rapidly than the Arab States since 2001.

Not only is Canada's merchandise trade with the GCC rising quickly, but it is widely acknowledged that the actual value of Canada-GCC trade is significantly understated. In general, the quality of export data around the world is known to suffer from measurement problems due to the "transshipping" of goods. Transshipping occurs when goods or services are shipped to their final destination via an intermediate destination. Export data are collected based on the known destination of the product, not the location of its intended final sale. As a result, exports are often overstated to major port countries and understated elsewhere.

Transshipping is a major issue when it comes to accurately measuring Canada's trade with the GCC. Although the general trends evident in Canada-GCC trade are considered to be reliable, the precise dollar value of trade is not. For example, in Saudi Arabia, Committee members were told that Canadian-made Crown Victorias are a popular car in that country, yet official data does not record the sale of a single passenger vehicle to

Saudi Arabia because those Crown Victorias are all transshipped via the United States.[3] It is estimated that the value of these vehicles alone would add $1 billion to Canada's official merchandise trade figures with the region.

Saudi Arabia and the UAE account for most of Canada's trade with the GCC. On the export side, the UAE is Canada's largest trading partner within the bloc, accounting for just under half of Canada's merchandise exports to the GCC in 2006. Combined, the UAE and Saudi Arabia made up about 83% of Canada's exports to the GCC that year. On the import side, it is Saudi Arabia which dominates, accounting for 84% of merchandise imports from the region in 2006.

Canada exports a wide range of products to the GCC, with manufactured goods making up the bulk of merchandise exports. Machinery and equipment (including electrical/electronic goods); motor vehicles and parts; aerospace vehicles and parts; and specialized instruments accounted for about half of total exports in 2006. The next largest category of exports was agriculture and food products, which made up close to 20% of total export sales that year. Forest products (wood, pulp and paper) and mineral products, led by iron and gold, each accounted for about 9% of exports.

For their part, Canadian imports from the GCC consist almost exclusively of crude oil and refined petroleum. The raw product accounts for 78% of Canadian imports and the refined good, 16%. Canada only imported two other products at values greater than $10 million in 2006: ether alcohol and unwrought aluminum.

Aside from data on merchandise trade, other information on Canada's economic relationship with the GCC is limited. Canada does have an investment presence in the region, but the number of players is so small that data on Canadian foreign direct investment (FDI) is not publicly available in order to protect business confidentiality. This situation only occurs when there are so few investors that publishing the data could reveal the value of an individual company's investments.

Data are available, however, only on the value of direct investment by GCC countries into Canada. Total FDI was about $92 million in 2005, a figure largely unchanged over the past five years. However, the Committee heard that the most recent data on FDI in Canada do not yet include a number of significant recent investments. Dubai Ports World is investing in Canadian ports in Vancouver and possibly elsewhere in the country; while Canadian energy companies Centurion Energy and North Rock Resources were also recently acquired by companies in the UAE. These deals will add billions of dollars to the value of FDI in Canada from the Arab States.

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3 Those Canadian-made vehicles remain a popular choice in the region. On several occasions, people we met in Saudi Arabia expressed concern that the Ford Motor Company was considering discontinuing the Crown Victoria model. We were asked to lobby the company to ensure that that did not happen.

3. Opportunities for Closer Economic Ties with the GCC

The tremendous increase in Canada-GCC trade in recent years, as well as GCC investment in Canada, is compelling evidence of the fact that the region holds considerable untapped potential for Canada and Canadian businesses. The GCC is a large and affluent market. Governments in the region are stable, the investment climate is positive, foreign ownership restrictions are limited, and the region welcomes foreign investment and trade.

Adding to the attractiveness of the market is the fact that, as mentioned above, the GCC is in the midst of an economic boom of virtually unprecedented levels. High oil prices have created massive budgetary surpluses and huge amounts of public spending across the region. As just one example, Committee members heard that in Saudi Arabia the budget surplus in 2006 was in the range of $55 billion, not including the billions of dollars that were spent on infrastructure investments that year. In the UAE, the trade and investment opportunities are more diversified and, arguably, even greater.

Even outside of the countries we visited, there are tremendous economic opportunities, especially on the investment side. Rapid population growth and economic expansion is creating considerable demand for infrastructure development, including hospitals, schools, roads, and other municipal services across the region. In addition, countries like Bahrain, Qatar and Kuwait are also making significant investments in business, as they work to establish themselves as global financial and commercial centres.

For the most part, the opportunities for Canadian businesses in the GCC are concentrated in direct investment and establishing a commercial presence in the region. However, this is not to suggest that opportunities for increased trade do not exist, especially in areas like agriculture and manufactured goods. The GCC is a large and affluent market, but it has a limited manufacturing base, and its capacity for agricultural production is limited. As a result, it relies on revenue from oil production and export to import food and manufactured goods from around the world.

These characteristics make the GCC an excellent trading partner for Canada. Manufactured goods and agri-food products make up a considerable share of Canada’s export base. There are also obvious opportunities for mutual trade in goods and services related to oil and gas services and supplies. Moreover, Committee members heard that the region has a taste for goods produced in the United States, but are sometimes reluctant to buy from the U.S. As part of the North American economic space, Canada is viewed as a place from which the same products can be purchased, without the political cost of buying directly from the U.S.

4. Saudi Arabia

a) Economic Overview

The Kingdom of Saudi Arabia is the dominant country in the Arabian Peninsula. Not only is it the most populous and largest in geographic terms, but it is the economic engine as well. Saudi Arabia alone accounts for 55% of the region's GDP. It holds the world's largest conventional oil reserves and is home to the Arab world's largest stock market. The Committee heard from the Special Advisor to the Ministry of Commerce and Industry in Saudi Arabia that, within two years, Saudi Arabia's total GDP will be the same as all other Arab states combined. When its religious significance is also considered, Saudi Arabia is perhaps the most influential country, not only in the Arabian Peninsula, but throughout the Arab world.

Politically, Saudi Arabia is an authoritarian, but stable, system. There are no democratic elections; all government ministers are members of the ruling Al Saud family. The King of Saudi Arabia is not, however, an absolute ruler. In addition to the constraints of building consensus with the large number of senior princes, senior religious leaders control major aspects of life in Saudi Arabia, including education, social and cultural issues.

As the world's largest producer and exporter of oil, Saudi Arabia has profited enormously from the surge in oil prices of the last few years. Revenues from oil production account for as much as 90% of government revenue in the country, and high oil prices have brought a windfall of money into Saudi Arabia. Committee members heard from the chief economist of the Saudi British Bank that Saudi Arabia received US$194 billion in oil revenues in 2006, larger than the entire GDP of the UAE that year. In fact, we learned that Saudi Arabia is working to even further expand its production capacity. Currently, the country is capable of producing up to 10.5 million barrels of oil per day (bpd). Planned production capacity will rise to 12.5 million bpd by 2009 and up to 15 million bpd by 2015.

Although oil dominates the Saudi economy, the country is taking steps to lessen its economic dependence on oil extraction. The Saudi government is using the surplus generated by oil revenues to undertake a host of investments aimed at diversifying the economy. These include investments in education, downstream energy products (such as petrochemicals and plastics), transportation infrastructure and knowledge-based industries. In our various meetings, we heard differing reports about the projected total value of these investments. In all cases, however, the figures were astronomical. One witness stated that there are $690 billion in investment projects on the horizon. Another stated that the figure was actually $1 trillion over the next ten years.

On top of that, the Saudi General Investment Authority (SAGIA) is planning to establish six "economic cities" across the country to create pockets of competitiveness in some of the above-mentioned priority sectors. Committee members met with SAGIA's Deputy Governor for Investment Affairs who stated that these cities would include commercial,

residential and retail developments, including significant investments in technology and infrastructure. Target investment levels for this project are in the hundreds of billions of dollars and are *not* included in the figures above.

Partly in an effort to attract foreign investors to help build and operate these facilities and projects, Saudi Arabia has taken a number of steps to make the country more welcoming to foreign traders and investors. The country recently acceded to the World Trade Organization (WTO) and has upgraded its 2001 investment law. Foreign investors in Saudi Arabia now enjoy national treatment, most-favoured nation (MFN) treatment, reduced corporate income taxes, and the ability to carry forward losses indefinitely for tax purposes. This last feature is particularly attractive for sectors like finance, insurance and telecommunications which may need time to establish themselves in the market.

In spite of its oil-fuelled economic boom, Saudi Arabia does face some significant economic challenges. In particular, it is struggling to keep pace with its growing population. Although the economy has been strong, per capita GDP in the country is only about half of what it was in the 1970s and 1980s; huge population growth has outstripped economic gains.

Not only has population growth eroded per capita incomes, but the domestic economy has not been able to create enough jobs for the large cohort of young Saudis. Committee members heard that about 300,000 Saudis enter the labour force each year, but that many of these young people lack the training and education necessary to function in the workplace. Moreover, we heard that many young Saudis grew up with the expectation that they, like their parents, would not have to work for a living. Even at present, a significant share of the jobs in Saudi Arabia, especially in the private sector, are held by foreigners. The Committee heard that, out of a total population of 25 million, about 7 million Saudi residents are foreign workers.

To address this issue, the government has implemented a policy of “Saudization” — an effort to increase the number of jobs held by Saudi nationals in the country. The long-term goal is for 75% of all jobs to be in Saudi hands. However, some of the people we met in Saudi Arabia were sceptical, saying that this policy was not well-planned and that it remained to be seen just how successful it would be.

b) Canada’s Relationship with Saudi Arabia

Although economic ties between Canada and Saudi Arabia are growing, we heard that overall relations between the two countries have not been strong. We were told that the two main reasons for this are: a lack of political contact between the two countries; and the perception in Saudi Arabia that there is a public backlash in Canada against that country stemming from the September 11th attacks in the U.S., the William Sampson case, and a general concern about women’s issues as well as concerns relating to social and religious freedoms and human rights.

While this Committee is in no position to comment on the social and religious issues, we are concerned about the lack of political contact between the two countries. In our view, infrequent contact leads to misunderstanding, perpetuates suspicion and gets in the way of closer economic ties. One witness suggested that, in its dealings with Saudi Arabia, Canada should concern itself not with judging other cultures, but with its own interests. Specifically, this witness suggested that Canada's interests in Saudi Arabia were twofold: mutual economic benefit; and building peace and stability in the Middle East.

In terms of political contact, we were concerned to learn that our trip to Saudi Arabia was the first visit by a group of Canadian parliamentarians to that country in four years. Before that, the most recent trip was in 2003, when the House of Commons Standing Committee on Foreign Affairs visited the country as part of its study on Islam. With the exception of a state funeral in 2005, the last time a Canadian Minister set foot in Saudi Arabia was seven years ago.

Canada's record on receiving delegations from Saudi Arabia is equally concerning. We were told that the King of Saudi Arabia has tried twice to visit Canada recently, once in the summer of 2005 and most recently in late 2006. In both cases, the trips were cancelled on the Canadian side. This has created the perception in Saudi Arabia that Canada is not interested in strengthening ties and, we heard, caused significant damage to the economic relationship between the two countries.

However, Committee members also heard some more encouraging signs regarding Canada-Saudi Arabia relations. While the Committee was visiting Saudi Arabia, a delegation of Saudi business leaders was just about to embark on a business trip to Canada, the first such visit in five years. In addition, Canada's Foreign Affairs Ministers, at the time the Hon. Peter McKay, had recently extended an invitation to his Saudi Arabian counterpart to visit Canada. Although the trip has been postponed because of a scheduling conflict, we heard that this effort by the Canadian government was well-regarded.

Saudi Arabia has increased its involvement in regional and international affairs in recent years, providing additional grounds for rebuilding Canada-Saudi Arabia relations. Prompted in large part by their concerns about a more aggressive, and possibly nuclear, Iran, Saudi Arabia is looking to provide a stabilizing influence in the region. It has taken a more active role in the Middle East peace process, and has committed to increasing its development assistance to Yemen in an effort to help stabilize its own borders.

c) Economic Opportunities in Saudi Arabia

With a booming economy, affluent society and hundreds of billions of dollars in investments planned or already underway, Saudi Arabia offers considerable economic opportunities for Canadian businesses. In particular, the country, like the region in general, is looking to attract foreign direct investment and expertise from around the world. Proposed

investments offer enormous potential for design, supply and construction contracts for Canadians, as well as for service-providers to establish a presence in the country.

Although Saudi Arabia is widely perceived as a wealthy country with tremendous oil reserves, economic opportunities in that country are generally not well-known. We were told that this was in part due to a lack of self-promotion on the part of Saudis and in part because Canada has not been truly engaged in the region.

One of the most significant opportunities in Saudi Arabia is in infrastructure development, especially transportation infrastructure. Committee members heard that Saudi Arabia will be spending US$100 to $200 billion on infrastructure projects over the next ten years. This includes road construction, building a network of railroads, expanding air services capacity, and municipal services such as water desalination.

Another area of considerable opportunity in Saudi Arabia is in education services. The Saudi education system is focused heavily on religious studies, which, we heard, account for seven out of ten classes at any level. Combined with the young and rapidly expanding population, there is considerable demand for new schools and specialized training institutions. In our meeting with the Special Advisor to the Ministry of Commerce and Industry, we were told that Saudi Arabia is building new schools at a rate of one a day for twenty years. It will build 18 new universities and grant 82 licences for private universities over the next three years. An estimated $150 billion will be spent over the next ten years on education alone.

However, Committee members heard that Canada has been absent on this file. While countries like Australia are establishing a major presence in the education services industry, Shurah Council members informed the Committee that Saudi Arabia has not met with Canada on the education file in five years.

Four other service sectors were frequently mentioned as areas where there were solid investment opportunities for Canadian businesses: finance, insurance, telecommunications and medical services. Committee members were told that insurance in particular is a rapidly-growing industry. While its current worth is about $137 million, the insurance industry is expected to grow to over $2 billion in just two years. Moreover, the risks of setting up a business in these sectors have been reduced significantly. As mentioned above, the recent reforms to the Saudi investment laws will allow any Canadian company to carry over any losses incurred in the initial years of establishing a presence in the country.

If the project gets underway, SAGIA's proposed initiative to build six "economic cities" to establish pockets of competitiveness will also offer considerable opportunities for Canadian businesses. This project is aimed at making Saudi Arabia a world leader in three sectors: energy, transportation and knowledge-based industries. SAGIA has set target investment levels of $500 billion for this initiative. This money is on top of all other investments planned

or currently underway. Even a fraction of that total could produce considerable opportunities for Canadian companies in those sectors.

5. United Arab Emirates

a) Economic overview

The UAE is by far the wealthiest country in the GCC and one of the richest in the world. Although its economy is only a fraction of the size of that of Saudi Arabia, on a per capita basis, GDP in the UAE dwarfs Saudi Arabia's and stands significantly higher than any other country in the region. In 2006, per capita GDP in the UAE reached US$49,700, compared to US$43,800 in the United States and US$35,700 in Canada.

The UAE is a relatively young country. It was created in the early 1970s with the union of seven Emirates, the largest of which, by far, is Abu Dhabi. Since that time, the country has benefited from good leadership and political stability, transforming itself into one of the wealthiest countries in the world.

Much of the wealth in the UAE is created through the efforts of foreign workers. Although 4 million people live in the UAE, only a small fraction are Emeratis. Foreigners make up over 80% of the population. As a result, the UAE is a remarkably diverse country. Moreover, its dependence on foreign workers and foreign investors, who cannot become citizens of the UAE, means that the country is considerably more tolerant of western culture and values than most other GCC members.

Not only is the UAE rich, but its economy is expanding at a tremendous rate. In 2006 alone, GDP growth reached 13%. More importantly, unlike Saudi Arabia, the UAE is not completely dependent on oil production and high oil prices to fuel its economy. While oil is undeniably important to the UAE economy — the country is among the world's largest oil producers and exporters — non-oil activities account for 70% of national economic output.

The vast majority of economic activity in the UAE takes place in the two largest of the seven emirates: Abu Dhabi and Dubai. Abu Dhabi is by far the larger of the two, accounting for 85% of the UAE's total GDP. It is also the source of most of the country's oil.

For its part, Dubai has very little oil, but has garnered an international reputation as one of the most dynamic and rapidly-growing cities in the world. Its economy is focused on the services sector, which accounts for 75% of the emirate's economy. Indeed, Dubai is positioning itself as a regional hub for transportation, logistics, tourism, retail trade, financial and commercial services for customers around the world. In particular, Dubai is seeking to become a hub for trade shows and exhibitions.

For those Committee members who visited the UAE, it is difficult to overstate the level of economic activity, investment and construction in the country, and in Dubai particulary. Dozens of major investment and construction projects are underway in the city, any one of which would be national news in Canada. A popular statistic circulating in Dubai is that 25% of the world's cranes are located in that one city. We were also told that GDP growth in Dubai is faster than in China, India or Ireland.

b) Canada's Relationship with the UAE

Canada enjoys a healthy and positive relationship with the UAE. The economic relationship between the two countries is expanding rapidly: Canadian exports to the UAE are growing exponentially (averaging 30% growth per year since 2001); and, as mentioned above, UAE companies are making major investments in Canada in the shipping, and oil and gas sectors.

Canada's response to the proposed investments in North American ports by Dubai Ports World (DP World) has also generated a certain degree of goodwill in the UAE. While DP World's proposed investment in U.S. ports was met with considerable resistance in that country, there was no such resistance in Canada. DP World's investments have already more than doubled the capacity of Vancouver's Centerm terminal.

Canada also has a considerable physical presence in the UAE. About 12,000 Canadians live in the country and 115 Canadian companies have operations there, up from 95 last year. Canada is represented in an official capacity by its Embassy in Abu Dhabi and its Consulate in Dubai. Canada also operates a large and growing visa processing facility in Abu Dhabi which serves not only the UAE, but all other countries on the Arabian Peninsula, with the exception of Saudi Arabia. Finally, Canada also has a defence presence in the country, as its theatre support for the Afghanistan operation is in the UAE.

c) Economic Opportunities in the UAE

The UAE represents a world of potential for Canadian businesses. To repeat what was stated earlier, the economy of Dubai is growing more quickly than China, India or Ireland. Moreover, the UAE is free of the major challenges businesses sometimes face in developing countries like China: the business environment in the UAE is stable; corruption is minimal; intellectual property theft is not an issue; and there are no requirements for joint ventures with local companies. From the Canadian perspective, perhaps the most compelling evidence of the stability and opportunity in the UAE is that the Ontario Municipal Pension Plan is investing in the country. Pension fund operators are not known for their risky investment behaviour.

Economic opportunities in the UAE, and in Dubai in particular, are virtually endless. When travelling in the country, Committee members had the opportunity not only to witness the

expansion first-hand, but to talk to Canadian businesses operating in the country. In one case, a representative of a Canadian engineering company told us that he regularly turned down work contracts because his company did not have the time or the capacity to accept all the work that was available. Contracts were so common that he offered to provide an office, and guaranteed work, to any Canadian company willing to locate in Dubai. He stated that after a month, the new company would easily have made enough to afford its own office space.

Although the costs of establishing operations in the region can be high, especially for smaller businesses, the UAE offers another service that can help Canadian businesses navigate through these unfamiliar waters — local chambers of commerce. In the UAE, the structure and role of chambers of commerce is different from that of Canadian chambers. UAE chambers play an active, quasi-government agency role. Their purpose is to promote the city and advocate to the government on behalf of the private sector. Chambers provide information and services, and act as networking hubs and as points of entry into the local economy. All local businesses are required to be members of their local chamber of commerce; chambers receive financial support from the government; and government representatives sit on the Board of Directors.

Committee members had the opportunity to meet with both the Abu Dhabi Chamber of Commerce and the Dubai Chamber of Commerce. In these meetings, we learned of another important role played by those bodies; they act as a gateway for foreigners looking to establish a presence in the UAE. A Canadian company looking for business in Abu Dhabi, for example, should contact the local chamber of commerce which would then direct that company to appropriate partners or customers. Since all businesses are required to be members of the local chamber, these bodies are in a position to play a valuable directory function for prospective foreign investors.

Because the UAE, and Dubai in particular, is establishing itself as a services hub, most of the economic opportunities for Canadian businesses in the UAE are focused less on trade and more on direct investment and establishing a physical presence in the country. Indeed, some of the development projects underway or proposed for the UAE are truly staggering in scope and ambition. While it would be impossible to provide a comprehensive list of the major investment opportunities, several sectors were mentioned repeatedly in our meetings with government and business leaders.

The most obvious of these is infrastructure. Opportunities related to construction, engineering and design are virtually limitless and range from transportation infrastructure (roads, rail, ports and air) to building construction and design, to municipal services such as water treatment and desalination. In addition, we heard that there were tremendous opportunities for Canadians in fields like education and training services, health services, as well as manufacturing and processing.

6. Building Closer Ties with the GCC: Policy Recommendations

We strongly believe that improving economic ties with the GCC is in Canada's economic interests. The region is wealthy, the countries are stable, corruption is minimal, and the economic opportunities in the region are difficult to exaggerate.

As described above, most of those opportunities involve direct investment in major projects and ambitious development initiatives. However, it bears repeating that the economic structure of the GCC makes it an ideal trading partner for Canada. GCC countries lack a strong manufacturing base and have virtually no agricultural industry. Canada, on the other hand, is a major agricultural producer and exporter and is looking for markets to help strengthen its manufacturing base. In addition, the fact that Canada and the GCC together have the world's largest oil reserves suggests more opportunities for closer cooperation.

To build closer political and economic relations with the GCC does not require a major shift in Canadian foreign policy or a significant redeployment of government resources. We believe that, with a few modest steps, the Government of Canada could do much to develop the Canada-GCC economic relationship. Specifically, government policy must accomplish three specific goals: signal that the Canada-GCC relationship is important to the Government of Canada; make Canadians aware of the opportunities in that market; and remove the impediments to doing business with the region. The recommendations presented below offer a first step towards accomplishing those goals.

a) Exploring Formal Economic Cooperation and Free Trade Agreements

Perhaps the most effective way to accomplish all three of these goals would be for the Government of Canada to negotiate a formal economic cooperation agreement with the GCC. The term "economic cooperation agreement" is broad and can mean anything from a basic government pledge to build closer economic ties, all the way to a formal free trade agreement. In our view, a free trade agreement (FTA) would be the most comprehensive and ultimately preferable option. However, there are some preliminary steps that can be taken to help build the relationship in advance of any potential future negotiation.

According to the Assistant Secretary General of the GCC, the beginning of closer Canada-GCC ties is as simple as Foreign Affairs Minister Maxime Bernier drafting a letter to the Secretary General of the GCC expressing Canada's formal interest in closer economic relations. The next step would be to negotiate an economic framework agreement. This agreement would outline areas where Canada and the GCC could work more closely together and help build a foundation upon which free trade negotiations might be initiated at some point down the road. In the view of the Assistant Secretary General, negotiating an economic framework agreement would be a straightforward matter, taking perhaps only a few days.

The Committee agrees that an economic framework agreement is an important first step in improving Canada's economic relations with the GCC. A formal agreement would not only start Canada and the GCC on the path towards closer ties, but it could be accomplished without placing undue burden on Canada's negotiating resources which are active elsewhere in the world. Moreover, such an agreement would also send an important signal to the business communities in both economies: closer Canada-GCC ties are important and beneficial.

As for the possibility of a free trade agreement between Canada and the GCC, we believe that the experience of an economic framework agreement will help determine whether or not an FTA with the GCC would be beneficial. The GCC is already a relatively open economy, with tariff rates of 5% or less on most products. However, if an economic framework agreement is successful in building economic relations to the point where an FTA is the logical next step, then Canada could revisit that option at a later date.

Recommendation 1:

That the Government of Canada make a formal request to the Gulf Cooperation Council to commence negotiations towards an Economic Framework Agreement between the two parties.

b) Other Formal Agreements

Economic cooperation agreements and FTAs are not the only means by which the Government of Canada can improve relations with the GCC. Some other treaties include foreign investment protection and promotion agreements (FIPAs), air service agreements and science and technology agreements, to name but a few.

While in Saudi Arabia and the UAE, the Committee consistently heard the message that, of the policy instruments listed above, Canada-GCC economic relations would most benefit from a broader air service agreement. We heard that a lack of air service can be a significant disincentive to closer business ties, adding cost and inconvenience to travel between the two economies.

Canada has bilateral air service agreements in place with Saudi Arabia, the UAE and, as of May 2007, Kuwait. In spite of these agreements, however, there is at present only one airline with direct service between Canada and the GCC. Etihad Airways offers thrice-weekly service between Toronto and Abu Dhabi. The Committee was pleased to learn that some progress is being made to improve air service between Canada and the GCC; beginning in October 2007, Emirates Airlines will also begin thrice-weekly flights between Dubai and Toronto.

In our view, it is clearly in Canada's best interests to establish more frequent air service with the GCC. Not only would Canada profit from improved access to an affluent region which is establishing itself as a hub for air transportation around the world, but by so doing, would help minimize one of the key impediments to closer Canada-GCC ties — travel distance.

Committee members heard repeatedly that personal relationships are critical to doing business in the GCC. Moreover, we were told that all too often, Canadians do not take the time needed to cultivate those relationships. Business success in the GCC cannot be done over the phone or by e-mail; it requires frequent travel to the region. Any steps that the Government of Canada can take to remove the impediments to that travel should be welcomed.

Recommendation 2:

That the Government of Canada work to broaden and deepen its network of air service agreements with countries in the GCC.

c) Increasing the Frequency of Visits to and from the Region

One of the most frequent messages heard by Committee members travelling in Saudi Arabia and the UAE was that, at a political level, Canada has been largely absent from the region. As mentioned above, a number of people we met in Saudi Arabia were gently critical of Canada's lack of engagement, not only in that country, but in the Middle East in general. There was also the perception in Saudi Arabia that Canadians make time to stop in Dubai, but not in the region's largest and most powerful economy.

We believe, however, that this latter point reflects more on the competitive rivalry between Saudi Arabia and the UAE than on any preference by the Canadian government to travel to one country over the other. While in the UAE, we also heard criticism that Canadian Ministers and Parliamentarians routinely transfer through Dubai in their travels around the world, yet never take the time to spend an extra day or two to visit the country, whether in an official or a personal capacity.

These observations were not news to the Committee; our trip to the Middle East was motivated in large part by similar testimony in Ottawa. Within the past year, a number of witnesses had come forward noting that Canada's lack of government engagement internationally was hurting our business prospects abroad.

As noted in our recent report, *Ten Steps to a Better Trade Policy*, trade and investment in many countries is built on international relationships which are not limited to business-to-business contact, but government relations as well. Moreover, as the report states:

> When the Prime Minister, other Ministers, Parliamentary Committees, or even individual Members of Parliament visit other countries, it signals that Canada is serious about expanding its political, social and economic ties around the world.

Our Committee's travel to the GCC stands as an excellent example of the importance and benefit of these visits. Committee members were warmly and graciously received throughout our trip. In addition to learning about the opportunities and challenges in the region, we gained access to high levels of government and business, and our trip garnered extensive press coverage in both Arabic and English-language daily newspapers. Compared to our Committee trip, which was by all accounts highly successful, the impact of visits by Cabinet Ministers or even the Prime Minister would be even greater.

The Committee is well aware of the possibility that part of the reason our trip gained so much attention in the GCC was because of the sheer novelty of the presence of Canadian Parliamentarians. In our view, this speaks all the more to the need for Canada to improve its record on foreign travel. As noted in *Ten Steps to a Better Trade Policy*, we are not insensitive to the political concerns of minority governments, or the haste with which some in the media accuse government members of wasting tax dollars. At the same time, however, it has been clearly established that high-level government travel is critical to establishing closer economic ties with regions like the GCC. Political involvement sets the tone for the international relationship, including the economic relationship.

Indeed, other industrialized countries are much more engaged in the GCC and have the economic results to show for it. Australia, for example, has used government travel to maximize its economic potential in the region. It takes advantage of the fact that several GCC countries are transportation hubs and, when transiting through the region, takes time to visit GCC countries. France is another example of a country which has taken the time to develop its relationship with the GCC. Committee members heard that, while in power, French President Jacques Chirac spent four full days in Saudi Arabia, an incredible number for any head of state. This was an important signal to French businesses which flooded into the country shortly thereafter.

In our view, increasing the frequency of official visits to the region would not only help improve economic ties, but would be extremely easy and inexpensive to accomplish. Given the fact that GCC countries like the UAE and Saudi Arabia are increasingly used as hubs for air travel around the world, many Cabinet Ministers or Senior Government officials regularly touch down in GCC airports on their way to and from meetings around the world. The additional cost of staying an extra night to pay an official visit to one or two countries in the region would be negligible. This is a true “easy win” for Canada.

Recommendation 3:

That, when traveling through Dubai or other GCC airports, Cabinet Ministers and Senior Government officials make an effort to extend their stay by one or two nights in order to pay an official visit to countries in the region.

Improving government-to-government ties with the GCC is about more than just increasing the number of visits to the region, however. Just as important is welcoming government and business delegations to Canada. To that end, we believe that Canada should, as a matter of priority, establish new dates for the visit of Saudi Arabia's Foreign Affairs Minister Prince Saud to Canada, and draft an official letter inviting the King of Saudi Arabia to Canada. The Government of Canada should make similar efforts to invite leaders from other GCC countries to visit Canada as well.

d) Increasing Canada's Foreign Presence in the Region

Country-to-country relationships, whether they are economic or political, are built on communication. One of the most effective means of establishing and developing those communication links is through official diplomatic representation.

In this capacity, Canada operates at a disadvantage in the region; compared to other G-8 countries, Canada is underrepresented in the GCC. In fact, we heard that Canada is the only G-8 country not to have official diplomatic representation in all GCC countries.

Canada is physically present in three countries in the region — Saudi Arabia, the UAE and Kuwait. In addition to its local responsibilities, the Canadian Embassy in Saudi Arabia also serves Bahrain, Oman and Yemen, while the Embassy in Kuwait also serves Qatar. The UAE is the only country in the region where Canada has two offices, an Embassy in Abu Dhabi and a Consulate in Dubai. The Embassy in Dubai also has a large visa processing centre which serves the entire region, except for Saudi Arabia.

The lack of diplomatic resources has strained Canada's relations with GCC countries. Committee members were told that the government in Qatar refused to hear the credentials of the Canadian Ambassador serving that country because there was no Canadian Embassy in Qatar. Other countries have also lamented the lack of an official Canadian Embassy or Consulate. In Yemen, for example, the lack of an official presence a major source of friction with that country. This issue will be discussed further below.

Recommendation 4:

The Government of Canada should increase its diplomatic resources in the GCC. Decisions on whether to open embassies or consulates, as well as the allocation of resources to those offices, should be based on economic potential, political importance and promoting respect for human rights.

e) Visas

In the past five years, this Committee and its predecessor, the Subcommittee on International Trade, Trade Disputes and Investment, have travelled to more than a dozen countries as part of a wide range of studies. In nearly all cases, it was all but inevitable that the issue of Canadian visas was raised. The Committee's trip to the Middle East was no exception.

At issue in Saudi Arabia and the UAE is the fact that, prior to 2001, Canada did not require visas for travellers from those countries. Since that time, not only have visa requirements been implemented, but, according to some people we met in the region, the restrictions placed on travel for successful applicants are too limiting.

In particular, it was the opinion of members of the Saudi Shurah Council that the time limit on Canadian visas is too short compared to other countries. In their opinion, those time limits also appear to be arbitrarily applied. We were told that while Canada offers three-month and six-month visas, successful applicants to the United States receive two-year visas, while visas to the UK range from a minimum of six months to a maximum of five years.

We heard that, ideally, Saudi Arabia would like a return to the pre-2001 state when there were no visa requirements in place. However, in the present environment of heightened security, even members of the Shurah Council acknowledged that this goal was unrealistic. They suggested that, at the very least, Canada could harmonize its visa time limits with that of the U.S. or, better yet, the UK.

In the UAE, the chief issue was the fact that the Emiratis are lobbying for visa reciprocity. The UAE does not require visas of Canadian travellers and, in their view, Canada should extend the same privilege to UAE citizens. Aside from that issue, however, the UAE was unique in that there were no complaints about the visa process itself. The Canadian visa office in Abu Dhabi is large, and growing due to increased demand, but still manages to provide remarkably effective and efficient service. The UAE is one of the very few countries this Committee has visited in recent years where we have heard no complaints about the visa application and granting process.

This Committee does not believe that Canada should eliminate its visa requirements on GCC countries at present. At the same time, however, the fact that Canada only grants relatively short-term visas imposes an administrative burden on both our visa officers, as well as on government and business leaders from the GCC. We do not suggest relaxing standards of scrutiny, but to examine the costs and benefits of extending the length of visas granted to successful candidates, particularly in light of evidence that the U.S. and UK both offer longer-term visas.

In our view, the rationale behind limiting the duration of stay when foreigners travel to Canada on a business or student visa cannot be significantly different from the rationale in other industrialized western countries. As such, we believe that the Government of Canada should review its policy for setting the duration of visas with a view to more closely harmonizing them with the duration of visas issued by countries like the U.S. and the UK.

Recommendation 5:

That the Government of Canada examine the benefits and drawbacks of harmonizing the length of visas it grants to successful applicants from GCC countries with the length of visas granted by the U.S. If there is no significant risk to doing so, Canada should offer longer-term visas to successful applicants, especially to those who are frequent travelers to our country.

f) Making the Promotion of Education Services a Priority

We believe that it is primarily the responsibility of Canadian businesses to seek out and act upon economic opportunities around the world. The role of government is to create a robust political and economic environment in which business can operate. It is not to decide which Canadian industries or businesses should succeed or fail. However, based on our experience travelling in the region, we believe that one specific sector should be singled out for policy action: education services.

If there was a common refrain to our meetings in the GCC, it was that there are vast opportunities in the region when it comes to the provision of education services, both in terms of attracting foreign students to study in Canada, as well as setting up Canadian education and training centres in the region. There is a particular need for specialized training schools. As mentioned above, Saudi Arabia alone will grant 82 licences to private universities over three years. It does not have the infrastructure, supplies, staff or curricula to meet this demand on its own.

The Canadian education sector has a presence in the region, but compared to countries like Australia, New Zealand and Malaysia, it is limited. We heard that, generally speaking, Canada’s large universities are complacent about offering services abroad. By contrast, private schools, community colleges and technical schools are much more active. Some of

the Canadian institutions active in the region include the Southern Alberta Institute of Technology (SAIT) and its northern counterpart NAIT; the Canadian International School (for elementary and secondary education using the Alberta curriculum) and the College of the North Atlantic.

The Committee was reminded that education services provide important long-term benefits to Canada's international relations. We were told that many prominent Saudis today were educated in the U.S. in the 1970s and 1980s. These same people, who have forged indelible links with the United States, are now in a position of power and influence at home. The value of these links cannot be understated.

In spite of the opportunities for education, it is clear that the sector is not a priority for Canada. In its Embassy in Abu Dhabi, Canada has an education resource centre in which prospective students can learn about Canadian post-secondary institutions.

However, we heard that, as a matter of policy, Canada's trade commissioners do not focus on promoting education services because it is not identified as one of Canada's top five priority sectors.

In our view, the education sector is one that not only offers considerable immediate economic opportunity for service providers, but is also in Canada's strategic long-term interests. Students who receive an education connected to Canada retain that connection for the rest of their lives. Cultivating these linkages can only help Canada's international political and economic relations down the road.

For this reason, the Committee believes that the federal government should do more to promote education services abroad. As a start, we believe that Canada should introduce trade commissioners dedicated specifically to the education file in key markets. These commissioners can help promote Canadian education institutions; help new service providers enter the market; and, perhaps most importantly, provide on-the-ground support to those institutions which have already established a foothold in their respective markets.

Recommendation 6:

That, in key markets such as the UAE and Saudi Arabia, the Government of Canada establish full-time trade commissioners devoted to the promotion and support of Canadian education service providers.

g) Establish a permanent Commercial Centre in the region

Another suggestion for a way to improve Canada's economic relations with the GCC came from the Federal National Council (FNC) of the UAE, the approximate equivalent to our International Trade Committee. Members of the FNC observed that trade delegations and political visits are valuable, but that the memory of those events fades over time. Far more useful, in their view, would be for Canada to establish a permanent commercial presence in the region. A commercial centre could be used as a forum in which to showcase Canadian products and expertise in the UAE, and in the region as a whole, through permanent or temporary exhibitions.

The Committee has heard similar suggestions in the past. As a Subcommittee of the Standing Committee on Foreign Affairs and International Trade, we produced a report in June 2005 entitled *Elements of an Emerging Markets Strategy for Canada*. In that report, we recommended that the Government of Canada establish an "innovation centre" in Canada; a venue in which Canadian companies could showcase their new products and technologies.

We believe that the idea of establishing a commercial centre in the UAE, one that showcases Canadian products and technology, would be a useful step in not only creating a more active presence in the region, but also in encouraging trade, investment and helping to build a Canadian brand identity in the process. As such, we recommend:

Recommendation 7:

That the Government of Canada consider establishing a permanent commercial centre in the UAE. This facility would be used as a venue from which to showcase and promote Canadian products and expertise in the region.

C. Yemen

1. Economic Overview

The Republic of Yemen is unique in the Arabian Peninsula. While the region as a whole is characterized by extraordinary wealth, Yemen is among the poorest countries in the world. In fact, from an economic development perspective, Yemen is more at home in the neighbouring Horn of Africa than it is in the Arabian Peninsula. Per capita GDP in Yemen was about US$1,000 in 2006, a mere fraction of the levels seen in nearby Arab countries, but identical to per capita GDP in Ethiopia, Eritrea and Djibouti, located just across the Red Sea.

Because it is so much poorer than other countries on the Arabian Peninsula, Yemen is the only country in the region that is not part of the GCC. Yemen does participate in some GCC initiatives and has the support of its neighbours, but it is at such a different stage of economic development that it is not feasible for Yemen to be a full member of the organization.

Future economic development in Yemen is beset by several major challenges. Religious conflict and regional disparities have resulted in open rebellion in the north of the country. The country also lacks the resources to establish an effective government presence across its entire territory. In addition, the country has only existed since 1990, following the unification of North Yemen and South Yemen; some lingering resentment over the long civil war and subsequent unification remains. Finally, we heard that, because of its proximity to Eastern Africa, Yemen is a popular destination for would-be refugees from Somalia. However, Yemen lacks the necessary resources to guard its coastlines, meaning that it has little control over access to the country.

On top of its social and political challenges, Yemen is also suffering from imminent shortages in natural resources. Committee members heard that in some parts of the country, particularly around Sana'a, water levels could reach crisis proportions by as early as 2010. In addition, while Yemen has only modest known energy deposits, what little wealth that does exist in the country is the result of oil production. No new major discoveries have been made in recent years, and oil reserves are dwindling rapidly.

Indeed, one of the few features Yemen shares with some of its Arab neighbours is the extent to which its economy is, at present, reliant on oil production. In Yemen, as in Saudi Arabia, oil accounts for 90% of government revenues. As energy reserves are depleted, many in Yemen are pinning their economic hopes on a major petrochemical project currently under development by a French company.

Its potential as a destabilizing force in the region has led many countries to increase the level of foreign aid they provide to Yemen. Committee members heard that the UK has increased its development assistance to Yemen four-fold in recent years and that Saudi Arabia is also increasing its support in an effort to help secure its shared border with that country. Other major donors to Yemen include Germany and Denmark.

In spite of these increase in official development assistance (ODA), we were reminded by Yemeni officials on several occasions that Yemen gets relatively little foreign aid compared to other third-world countries. We heard from the Deputy Prime Minister for Economic Affairs that, although it is among the very poorest of countries, Yemen receives about US$13 to US$15 per capita in ODA, compared to an average of US$33 to US$35 per capita in other least developed countries (LDCs).

2. Canada's Relationship with Yemen

Canada has a far more important economic relationship with Yemen than most Canadians realize. There are three Canadian oil companies with a presence in Yemen, the largest of which, Nexen Inc., is a dominant force in the local economy. Nexen accounts for 40% of total oil production in Yemen. It also operates a major pipeline for its own oil, as well as for other oil producers in the country, and an export terminal on behalf of the Government of Yemen and five other operators. Over the years, Nexen has made $3.3 billion in capital investments in Yemen and an estimated $1.1 billion in operating spending.

Nexen aside, however, Canada's relationship with Yemen is limited. Canada does not have an official diplomatic presence in the country, and its economic ties are modest. Canada's total merchandise exports to Yemen were valued at $27.6 million in 2006, consisting largely of parts and equipment related to oil production and transportation, along with some aircraft and agricultural products, such as pulses and wheat. Canadian imports from Yemen were only worth $229,000 in 2006, nearly half of which was unroasted coffee beans.

In spite of its limited ties, Canada enjoys an excellent reputation in Yemen. Again, this is due to the work of Nexen, not only as an agent of investment and economic growth, but also through its involvement in the wider community. This community involvement will be discussed in more detail below.

3. Economic Opportunities in Yemen

Although Yemen is, in essence, a third-world country surrounded by wealthy neighbours, Committee members found that there were nevertheless considerable economic opportunities for Canadian businesses in the country. Needless to say, like the prevailing economic conditions, these opportunities are very different from those found in Saudi Arabia or in the UAE and therefore take a very different mindset and approach.

a) The Business Climate

While the litany of challenges that Yemen faces may suggest that companies should avoid the country, we heard that the experience of foreign companies operating in Yemen has been generally positive. Nexen representatives noted that, characteristic of poor countries, the legal framework in Yemen was underdeveloped. However, they also observed that their relations and negotiations with the Yemen government were always transparent and fair, and that there was no history of unreasonable legislation in the country.

Moreover, like other countries in the region, Yemen is working to improve its business environment. The country is undertaking an ambitious reform agenda and, according to the Deputy Prime Minister for Economic Affairs, is making good progress in regulatory and judiciary reforms, as well as on fighting corruption and improving the transparency of government procurement and the bidding process.

Committee members had the opportunity to meet with the President of the Yemen General Investment Authority (GIA), who outlined the ambitious agenda of his agency. The GIA has embraced the one-stop shop concept for foreign investment. It is set up to make the investing process as smooth as possible. The GIA is the sole contact point for any prospective foreign investor in the country. It is the licencing and registration body; it provides local market information; it handles all government contact on behalf of the investor; and it does troubleshooting on problems companies may face. In short, the GIA assists foreign companies through every step of the investment process.

Recognizing that Yemen does not have the most ideal investment climate, the country's investment law contains a number of incentives aimed at mitigating some of the risks associated with investing in the country. For example, Yemen offers unrestricted foreign ownership and capital outflows in all sectors except energy, mining and banking. It also offers a potentially lucrative series of financial incentives which can offer up to 16 years of profit tax exemption.

According to the president of the GIA, these incentives are necessary to attract investment to the country. He noted that companies are willing to pay taxes in a stable environment, so long as there are not hidden costs elsewhere. Until Yemen's investment climate improves sufficiently, he stated that the country will continue to offer financial incentives.

b) Specific Opportunities

In spite of the country's poverty, the Committee learned that there are considerable economic opportunities for Canadian companies in Yemen. Infrastructure is the largest investment priority in Yemen. Yemen has recognized that all other identified priority investment areas — energy, mining, fisheries or tourism — require solid infrastructure, especially roads and electricity networks, both of which are underdeveloped. Other infrastructure projects with investment potential include water desalination, dam construction and development projects such as schools or health facilities.

Perhaps the second highest priority investment sector is education. Like many GCC countries, the population of Yemen is very young. An estimated 60% of the population is under the age of 28. While this provides a large supply of labour for prospective investors, these workers are often not technically qualified for skilled work.

As with infrastructure, Yemen sees adequate education and training as underpinning the potential economic impact of investments in other sectors. For example, another priority investment sector for Yemen is tourism; there is considerable potential for the development of luxury resorts in coastal regions and on the islands in the Gulf of Aden. However, without local workers trained in the tourism/hospitality sector, many of the jobs created by foreign investment in tourism would fall to foreign workers, thus minimizing the local benefit of the investment.

Aside from infrastructure, education and tourism, most economic opportunities in Yemen are based in natural resources. Some opportunities remain for oil and gas exploration, and the country is virtually untouched in terms of mineral exploration. There are believed to be good opportunities to mine for gold, zinc, iron and limestone.

In addition, there are undeveloped opportunities in food production. There are few places on the Arabian Peninsula which have the ability to grow food in meaningful quantities. Because of the high altitudes and cooler temperatures in certain regions of the country, Yemen is much better suited to larger-scale agricultural production than its neighbours. Moreover, its coastal regions also offer considerable potential for fishing and aquaculture. Yemen hopes to position itself as a regional source of food for other countries on the Arabian Peninsula, for whom most food products are imported from overseas.

To do so, however, Yemen needs investment to help develop its agriculture and aquaculture industries. With considerable expertise in those areas, Canadian businesses are in an excellent position to get involved in those enterprises.

4. Building Closer Ties with Yemen: Policy Recommendations

The Committee believes that there is a strong case for building closer ties with Yemen. Although Yemen is one of the world's least developed countries, and thus carries with it considerable risks, there are several sectors in which opportunities for trade and, especially, investment exist. Moreover, these sectors: infrastructure; education; mining and energy; agriculture; fisheries; and tourism, are all areas where Canada has known expertise.

A more compelling reason to increase our involvement in Yemen is to promote peace and stability in the Middle East. Yemen is by far the poorest country on the Arabian Peninsula, and it is widely believed that rogue elements in that country are a potential destabilizing force in the entire region.

Canada enjoys an excellent reputation in Yemen, thanks to the corporate and social presence of Nexen and Canada's other companies active there. Assisted by their knowledge of the country, we believe that Canada is uniquely well-positioned to play an important role in fostering economic development and poverty reduction in Yemen. By so doing, Canada can indirectly contribute to stability across the region as well.

Indeed, some believe that Canada has an obligation to contribute to economic development in Yemen. Canada has benefited enormously from the activity of its oil companies in that country through profits, tax revenues and jobs created for Canadians. Considering the wealth of Canada and the relative poverty of Yemen, it was suggested to Committee members that Canada has a responsibility to give more to Yemen, especially considering how much it has taken out of the country.

Establishing closer ties with Yemen, and promoting economic development in that country, requires a very different set of policy tools compared to building closer relations with the GCC countries. For one, formal economic treaties like free trade agreements or economic cooperation agreements are premature. More appropriate would be policies that encourage Canadian investment in Yemen; aid and development policies; and building closer government-to-government relations.

a) Establishing a Diplomatic Presence in Yemen

As mentioned earlier, Canada does not have an official diplomatic presence in Yemen. This, we discovered, is a clear source of irritation with the Yemeni government. In every one of our meetings with government leaders and officials, we were reminded that Canada did not have an embassy or even a consulate in the country. Indeed, the President of Yemen met with Committee members and expressed his personal dissatisfaction with Canada's lack of diplomatic representation in his country. He also suggested that a fraction of the taxes paid by Nexen alone would easily finance the cost of an embassy in that country.

In our view, Canada should consider establishing an official representation presence in Yemen. Canada has a substantial economic footprint in Yemen and the oil and gas sector has been lobbying for diplomatic support in the country as well. We are thus pleased to note recent reports that Canada is already considering upgrading its diplomatic presence in the country. We fully support this move and thus recommend:

Recommendation 8:

That the Government of Canada establish an official diplomatic presence in Yemen. A study by the Department of Foreign Affairs and International Trade can determine whether an embassy or a consulate is the more appropriate.

b) Negotiating a Foreign Investment Protection Agreement

While we believe that there are significant investment opportunities in Yemen, it goes without saying that the country does not offer a stable investment environment in the same sense as does the EU, for example. One of the ways that governments can work to

mitigate the risks associated with investing in developing countries is to sign foreign investment protection and promotion agreements (FIPAs) with those countries. In essence, these agreements set out legally-binding rights and obligations on the parties involved, reducing the uncertainty that investors face in the foreign market.

This is an option to consider for Yemen. As noted above, we heard that Canadian companies have never encountered any difficulty with the Yemen government changing the rules or conditions of existing agreements. Moreover, Yemen has taken a number of steps to improve its investment climate, through government reforms and by updating its investment law. At the same time, however, a FIPA can play an important role in clarifying investor rights and obligations, and can help offset, to a certain degree, the risks associated with investing in a developing country.

We believe that, because of the economic opportunities in Yemen, and the role that foreign investment can play in promoting economic development, the idea of pursuing a FIPA with Yemen warrants consideration. In our view, the Canadian government should consult with relevant Canadian businesses to determine whether or not a FIPA with Yemen would be helpful in encouraging investment in Yemen by mitigating some of the risks associated with that country.

Recommendation 9:

That the Government of Canada consult with Canadian businesses and civil society organizations, both at home and those active in Yemen, to determine whether or not a Foreign Investment Protection and Promotion Agreement with that country would be beneficial.

c) Using Trade and Investment as a Tool for Economic Development

The Committee believes that Yemen is an excellent case study for the positive role that trade and investment, when coupled with community involvement, can play in economic development. We refer specifically to the involvement of Nexen, both in the Yemen economy and in the local community.

Indeed, Committee members were struck by the extent to which Nexen is active in the local community. The company donates $600,000 a year towards community affairs, a sum several times larger than the value of the Government of Canada's Canada-Yemen Fund. Moreover, the company is building schools and local health centres for all Yemenis (not just its employees) and sponsors doctors to come to Yemen to establish oncology centres in the country.

Nexen is also active in building the productive capacity of the Yemeni workforce. Through its own training program, the company is increasing the number and proportion of skilled jobs that go to local workers. In 1993, Yemenis accounted for about half of the total number

of jobs within the company. In 2007, that share will climb to 83%. As well, the company has established a scholarship program through which it sends 10 students per year to pursue undergraduate studies at the University of Calgary. As a matter of policy, Nexen will not hire these students when they return home, in order that their skills be made available elsewhere in the country.

It is not typical for Committee reports to dwell on the accomplishments of, and to provide free advertising for, individual companies. In this case, however, we have highlighted the activities of this one company to illustrate a point: that when used properly, trade and investment are important and effective tools in promoting economic development.

Sadly, examples abound wherein resource companies operating in poor countries simply extract energy or minerals in enclosed facilities and ship the product, and the profits, out of the country. The only benefit to the local community in these cases is a handful of jobs and some revenue for the local government.

By contrast, Nexen’s experience in Yemen demonstrates that trade and investment, especially in developing countries, can be a win-win scenario for the company and the country alike. Companies make the decision to invest or to trade based on an expected economic return. However, when they also make an effort to be active in the community, whether by training and engaging local workers or by donating to local development projects, these actions not only benefit local economic development, but also generate considerable goodwill for the company. This goodwill can lead to better relations with domestic governments and result in a more reliable, loyal and productive workforce.

In our view, Nexen’s experience in Yemen provides a model not only for how other Canadian companies can be successful in developing countries, but also for how trade and investment can be an agent for economic development and poverty alleviation. We believe that this type of trade and investment should play a more prominent role in Canada’s development policy and thus recommend:

> **Recommendation 10:**
>
> **That, recognizing the benefits to developing countries of combining trade and investment with corporate social responsibility and community involvement, the Government of Canada give a more prominent role to trade and investment in its international development policy.**

d) Official Development Assistance

In Yemen, Committee members were told on several occasions that the country receives far less than its fair share of development assistance from rich countries around the world. Some suggested that Yemen is overlooked, partly because it is forgotten amidst its wealthier GCC neighbours, and partly because its aid needs are overshadowed by those of its nearby African counterparts.

Committee members met with several people who suggested that, for the purpose of aid distribution, rich countries should consider Yemen to be a part of Africa. In our view, this is an idea worth exploring. Although Yemen is clearly a part of the Arab world, from an economic perspective, it is much closer to Eritrea or Ethiopia than it is to Saudi Arabia, or even to countries like Jordan or Syria. We therefore recommend:

Recommendation 11:

That, for the purposes of distributing foreign aid, the Government of Canada consider Yemen to be part of Eastern Africa. The Government of Canada should also ensure that by so doing, the amount of development assistance available for other countries in the region is not reduced.

THE EUROPEAN UNION

A. Introduction

Committee members who travelled to the Arabian Peninsula also stopped over in Brussels for two days of meetings on issues relating to Canada-EU economic relations. The two regions are a study in contrast; Canada's economic relationship with the EU could hardly be more different from Canada's economic ties with the Arabian Peninsula. While the Arabian Peninsula brims with economic potential, Canada is, at present, largely absent from that market. For its part, the EU lacks the economic dynamism of emerging markets, but is a stable, prosperous and growing region. Moreover, it has deep and well-established economic ties with Canada.

B. Canada's Economic Relationship with the EU

The EU is Canada's second most important trade and investment partner in the world. Five of Canada's top ten export destinations are EU members, as are three of Canada's top sources of imports. In total, Canadian merchandise exports to the EU reached $29.1 billion in 2006, while imports were valued at $49.2 billion. The UK, Germany, France, Italy, the Netherlands and Belgium are Canada's largest trading partners in the EU.

After years of relative decline, Canada's economic relationship with the EU is strengthening and the region is rising in importance as a trading partner for Canada. In 1999, current EU members accounted for about 7.3% of Canada's total merchandise trade (exports plus imports). In spite of the tremendous growth in trade with countries like China and Mexico in recent years, by 2006 the share of total trade going to the EU had risen to 9.4%, its highest level in fifteen years.

On the investment side, Canada's relationship with the EU is even more significant. In 2006, nearly 28% of total Canadian foreign direct investment was in EU countries, with a total value of more than $144 billion. Similarly, EU countries are major investors in Canada. That same year, EU countries accounted for 26% of total global FDI in Canada, with a total value of over $118 billion. Canada's top investment destinations in the EU are the UK, Ireland and France, while the top sources of FDI are the UK, France and the Netherlands.

Our Committee's meetings in Brussels followed shortly after the Canada-EU Summit, held in Berlin on June 4, 2007. As a result, much of the discussion at our meetings focused on the subjects and issues brought forward at the Summit. Specifically, the Canada-EU Summit focused on achieving closer cooperation in three main areas: peace and security; economic co-operation, trade and investment and air service; and the environment.

Of particular relevance to this Committee is the second of these priorities — economic co-operation, trade and investment and air services. Because Canada and the EU have a mature and well-established economic relationship, most of our discussions focused on removing the various impediments to trade and investment, rather than, as was the case in the Arabian Peninsula, on identifying specific areas of opportunity.

This is not to say, however, that there are not specific areas of opportunity for Canadian businesses in the EU. While Canada is well-established in the EU in a wide range of sectors, one particular area which holds ample growth opportunities is agricultural products, especially for the production of biofuels. The EU has a goal of increasing biofuel use from 5.75% to 10% of total fuel consumption. The primary products being used to create these biofuels are sugar beets and corn.

Biofuels also create a market opportunity for Canadian canola growers. While the issue of genetically modified organisms (GMOs) continues to prevent acceptance of canola for human consumption, Canadian exports of canola seeds have risen dramatically in recent years, in response to demand for feedstock for fuel.

C. Building Closer Economic Ties Between Canada and the EU

1. Free Trade

The most significant step Canada could take in removing obstacles to trade with the EU would be to pursue a Canada-EU free trade agreement. Indeed, as recently as the Canada-EU Summit in June, Canada has expressed its formal interest in pursuing such an agreement.

The timing for a free trade agreement with the EU is good. Traditionally, EU policy regarding trade liberalization has been to focus on multilateral negotiations. The EU, like Canada, holds the view that the WTO is the best solution for achieving a system of global trade.

However, the practicalities of the present-day economic environment have caused a recent shift in EU trade policy. With the prospects for a WTO agreement poor, some of the EU's competitors in international markets, notably the U.S., have turned their attention to pursuing bilateral free trade deals with willing partners. The EU has recognized that unless it does the same, its businesses will be put at a competitive disadvantage abroad relative to countries like the U.S., which have negotiated preferential market access. As a result, the EU has also begun to place heavy emphasis on bilateral trade deals. Committee members heard that the EU has plans to negotiate 24 free trade agreements, beginning with India, ASEAN and South Korea.

Unfortunately, we heard that the appetite within the EU for a free trade agreement with Canada is low. We were told that the EU sees its relationship with Canada as mature and not in need of any fixing or greater focus. This was the same message Canada received at the Canada-EU Summit in the weeks preceding our arrival in Brussels. At the summit, the most progress Canada could make was to reach agreement with the EU to conduct a study on the costs and benefits of a closer economic partnership.

According to Canadian Embassy officials in Brussels, the study will examine existing barriers to trade and investment, and estimate the potential benefits of removing them. The study will also identify how a closer partnership could complement ongoing efforts to enhance cooperation in areas such as science and technology, energy and the environment. Leaders are to review the results of the study at their Summit meeting in 2008.

Although a feasibility study is at least a small step in the right direction, the Committee was disappointed with the lack of interest within the European Commission regarding a potential free trade agreement with Canada. While in Brussels, however, one witness offered an alternative strategy Canada might consider in lobbying for free trade negotiations. Specifically, it was suggested that Canada shift its lobbying efforts away from the bureaucracy of the European Commission and refocus those efforts on key countries within the EU. We were told that EU policies are often crafted by bureaucrats in Brussels and may not necessarily reflect the views of EU member countries. Canada's key trading partners in the EU are the largest and most influential countries in the bloc — the UK, Germany and France. If Canada could convince these countries of the merits of Canada-EU free trade, it could put pressure on the EU from within to open negotiations with Canada. We thus recommend:

Recommendation 12:

That, given the tepid response within the European Commission for a free trade agreement with Canada, the Government of Canada lobby its major trading partners within the EU — the UK, Germany and France — for their support for a Canada-EU free trade agreement.

2. Regulatory Cooperation

Canadian and European businesses have identified regulatory cooperation as an area which could pave the way for closer economic relations. There are numerous regulatory obstacles that can obstruct the flow of trade and investment between Canada and the EU, and create formidable market access barriers. Many believe that regulatory cooperation, whether through harmonization or mutual recognition of standards, could remove significant impediments to trade growth between Canada and the EU.

Indeed, Canada and the EU have already made some progress in this area. In recent years, Canada and the EU have been negotiating a Trade and Investment Enhancement Agreement (TIEA), aimed at building closer economic ties between the two economies. Although negotiations were suspended in May 2006, significant progress had been made in the area of regulatory cooperation.

At the Canada-EU Summit on June 4, 2007 in Berlin, leaders committed to concluding a Regulatory Cooperation Agreement based on the progress made during TIEA negotiations. This agreement will enhance the voluntary Framework on Regulatory Cooperation and Transparency signed in 2004.

The Committee believes that a regulatory cooperation agreement is an important step in removing some of the obstacles preventing closer economic ties with the EU. Committee members heard that the EU is emerging as a world leader in setting regulatory standards, and we believe that it is Canada's interests to pursue closer regulatory cooperation with the EU.

One of the challenges in doing so, however, is that Canada is also considering closer regulatory cooperation with the United States. To the extent that European standards differ from those of the U.S., regulatory cooperation with the EU could raise impediments to trade with the U.S. as it lowers them with the EU. Considering that the U.S. accounts for over 80% of Canada's total exports and two thirds of total merchandise trade, it would be imprudent to lower regulatory hurdles with the EU at the expense of raising market access barriers with the U.S.

One way around this problem, we were told, is to establish a regulatory cooperation agreement with the EU that does not seek to rewrite existing regulations, but rather to achieve long-term policy harmonization by cooperating on *new* regulations. Under such an agreement, each time Canada or the EU is considering establishing new regulations (or updating old ones), they would first examine whether the other party to the agreement already had similar regulations in place. If adequate regulations existed in the other economy, then instead of duplicating the effort and producing similar (but not identical) regulations, the one set of regulations could be adopted by both parties.

The Committee sees regulatory cooperation with the EU as an important step in removing barriers to trade with that market. Provided that safety standards are not compromised and that Canada's ability to trade with the U.S. is not harmed, we encourage the Government of Canada to make good on its 4 June commitment to conclude a Regulatory Cooperation Agreement with the EU. We recommend:

Recommendation 13:

That the Government of Canada undertake an in-depth comparative analysis of the regulations in Canada and the European Union in order to identify which ones could be the subject of a regulatory cooperation agreement without hindering the values and concerns of Canadians.

3. Other areas for closer Canada-EU Cooperation

While in our view, free trade and regulatory cooperation are the two most significant ways in which Canada can improve its economic relationship with the EU, there are a host of other, more incremental steps that can be taken to improve bilateral relations.

One of these steps is to improve air transport services across the Atlantic Ocean. Canada and the EU have committed to holding negotiations on a comprehensive air services agreement. This is expected to be a major negotiation, linking all of Canada's existing air service agreements with EU members into one, as well as incorporating a regulatory component, potentially addressing such issues as consumer protection, competitive ownership, vehicle emissions, and so on. Formal negotiations commenced in the fall of 2007.

Opportunities for closer ties also exist in areas like science and technology cooperation, liberalizing trade in services, temporary worker agreements and recognition of professional standards. The Committee expects that many of these issues will be addressed in the study of a closer Canada-EU economic partnership which the two parties committed to on June 4, 2007. This Committee eagerly awaits the results of that study and we hope that it can be used as a springboard to closer economic relations with the EU.

SOUTHEAST ASIA

A. Regional Overview

Southeast Asia[4] comprises mainland Asia, east of India and south of China, and the island arcs and archipelagos to its east and southeast. Mainland countries include: Cambodia, Laos, Myanmar (Burma), Thailand and Vietnam. Maritime countries include: Brunei Darussalam, Timor-Leste (East Timor), Indonesia, Malaysia, the Philippines and Singapore. These 11 countries and 12 territories encompass 4.5 million square kilometres, and more than 568.3 million people who speak no less than 27 languages. The dominant religions of Southeast Asians are Buddhism, Islam, followed distantly by Christianity.

All of these Southeast Asian countries are members of the Association of Southeast Asian Nations (ASEAN) but for Timor-Leste, which is a candidate for membership.

B. The Association of South East Asian Nations

1. Economic Overview

The Association of Southeast Asian Nations or ASEAN was established on August 8, 1967 in Bangkok by its five original member countries: Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam joined ASEAN on January 8, 1984, Vietnam on July 28, 1995; Laos and Myanmar on July 23, 1997; and Cambodia on April 30, 1999. As agreed in its founding declaration, the Bangkok Declaration, the Association aims to:

1. accelerate economic growth, social progress and cultural development in the region; and

2. promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.

4 Southeast Asia is sometimes referred to as the East Indies or, more simply, the Indies.

In 2006, ASEAN countries recorded a combined GDP of about US$921.6 billion. Strong and stable economic growth seems quite the norm throughout the region, as real GDP growth has averaged about 5.4% per annum over the past 5 years (see Table 1).[5] With an average annual income of just US$2,041 per capita in 2006, ASEAN, with the exception of Singapore, is comprised of low middle-income countries, according to the United Nations classification system.

Table 1
ASEAN-4 Real Gross Domestic Product Annual Growth Rates, 2002-2006

ANASE-4	2002	2003	2004	2005	2006
Indonesia	4.5 %	4.8 %	5 %	5.7 %	5.5 %
Malaisia	4.4 %	5.5 %	7.2 %	5.2 %	5.9 %
Philippines	4.4 %	4.9 %	6.2 %	5 %	5.4 %
Thaïlande	5.3 %	7.1 %	6.3 %	4.5 %	5 %

Source: International Monetary Fund, *World Economic Outlook Database*, April 2007

By international standards, ASEAN economies are very open. For example, ASEAN merchandise exports accounted for more than US$750.7 billion in 2006, while its merchandise imports accounted for US$654.1 billion. Combining these two data, merchandise trade amounts to 152% of ASEAN GDP. Additionally, the total ASEAN net inflow of foreign direct investment (FDI) amounted to US$52.4 billion in 2006.

2. ASEAN Free Trade Area (AFTA)

The ASEAN Free Trade Area (AFTA) is an agreement that was signed on January 28, 1992 in Singapore by the member countries of ASEAN and covers their manufacturing sectors. When the AFTA agreement was originally signed, ASEAN had six members: Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand (also known as the ASEAN-6). Timetables for meeting free trade obligations under the agreement, therefore, differ according to whether the country is a pre- or post-1992 ASEAN member.

ASEAN member countries have made significant progress in lowering intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) scheme under the AFTA agreement. More than 99% of products found on the CEPT Inclusion List (IL) of the ASEAN-6 have had their tariffs brought down to the 0-5% range. ASEAN's newer members, namely Cambodia, Laos, Myanmar and Vietnam, are not far behind in the implementation of their CEPT commitments, with about 66% of products on this list

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5 Real GDP refers to nominal GDP discounted for inflation (i.e., holding prices constant).

having tariffs within the 0-5% tariff range. In 2006, Vietnam brought down its tariff on products on the Inclusion List to no more than 5% duties, while Laos and Myanmar are scheduled to do the same by 2008 and Cambodia by 2010.

In 2007, tariffs on about 65% of the products on the IL of the ASEAN-6 have been eliminated. The average tariff for the ASEAN-6 under the CEPT scheme is 1.51%, down from an average of 12.76% when the tariff cutting exercise began in 1993. Products that remain outside the CEPT-AFTA Scheme are those on the Highly Sensitive List (i.e., rice) and the General Exception List.

ASEAN member countries have also resolved to work on the elimination of non-tariff barriers. This work includes:

- the process of verification and cross-notification;
- the working definition of Non-Tariff Measures (NTMs)/Non-Tariff Barriers (NTBs) in ASEAN;
- the setting up of a database on all NTMs maintained by member countries; and
- the eventual elimination of unnecessary and unjustifiable non-tariff measures.

3. Open Skies Agreement

ASEAN countries have also adopted an "Open Skies Policy," with the aim of liberalizing air travel between member countries. In October 2003, in Myanmar, the ASEAN Transport Ministers endorsed an agreement that will implement the liberalization of air routes between the capital cities of member countries beginning in 2009. The agreement will be expanded to cover other cities by 2015. Singapore and Malaysia are in separate talks to open the Singapore/Kuala Lumpur route before 2009.

4. ASEAN Plus Three Cooperation

The ASEAN Plus Three cooperation initiative began in December 1997, in the midst of the Asian Financial Crisis of 1997-98, with the convening of an informal Summit of Leaders of ASEAN and their counterparts from East Asia, namely China, Japan and South Korea. Since then, ASEAN has held a regular series of meetings of heads of government and ministers of foreign affairs, trade and investment, and finance, with counterparts of the three East Asian countries. The leaders have agreed to:

- accelerate the development of regional growth areas, including the Mekong River Basin;

- establish an East Asian Business Council to promote private sector participation;

- enhance monetary and financial cooperation by strengthening policy dialogues, coordination, and collaboration on financial, monetary, and fiscal issues; and

- intensify coordination and cooperation in various international and regional forums such as the UN, the WTO, APEC, ASEM, and the ARF, as well as in regional and international financial institutions.[6]

Bilateral trading arrangements between ASEAN and China, ASEAN and Japan, as well as ASEAN and South Korea are currently underway. It is expected that these arrangements will, in the near future, serve as building blocks for the possible establishment of an East Asia Free Trade Area (EAFTA).

5. Canada-ASEAN Trade and Investment Opportunities and Challenges

The first formal meeting between Canada and ASEAN was held in February 1977. From this meeting, Canada committed to extend a programme of development assistance, which was formalized in 1981 with the signing of the ASEAN-Canada Economic Cooperation Agreement (ACECA). Since that time, Canada has contributed more than $2.8 billion in development assistance to the region.

Canada-ASEAN relations have progressed, and are continuing to progress, on the social front, but they remain largely underdeveloped on the economic front. Currently, about 300,000 Canadians travel to Southeast Asia annually, and more than 2,000 Southeast Asian students study at Canadian universities each year. Meanwhile, Canada's economic interests in the region are reflected in modest two-way trade and one-way foreign investment from Canada to the ASEAN region. Canada-ASEAN two-way trade was valued at $12 billion in 2006, with about three-quarters of it headed to Canada ($8.93 billion) and one-quarter of it headed to ASEAN ($3.23 billion). Canadian FDI in the region was valued at $9 billion in 2006, with about 80% of it located in Singapore.

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6 UN = United Nations, WTO = World Trade Organization, APEC = Asia-Pacific Economic Cooperation, ARF = ASEAN Regional Forum, ASEM = Asia-Europe Meeting.

In assessing Canadian opportunities for further economic relations with ASEAN, a number of factors must be kept in mind. First and foremost, ASEAN economies have, historically, been founded on agriculture, and have expanded their business networks based on a trade route/port approach. In the past two or three decades, however, rapid industrialization and economic transformation in ASEAN countries have resulted in the export of high value-added manufactured goods and sophisticated machinery and equipment. ASEAN countries are now more appropriately classified as "Emerging Economies," This new classification has been accompanied, however, by considerable economic adjustments and challenges.

The most recent, and arguably most significant, development in this regard is the appearance of China on the international scene which, through its accession to the World Trade Organization (WTO), poses a number of additional challenges and opportunities for ASEAN, necessitating yet more economic adjustment. Looking forward, the principal challenge to ASEAN member countries remains the Association's further integration, which largely rests on the elimination of their non-tariff barriers.

ASEAN is not yet a single market, but it is on its way to becoming one. Canadian companies can well begin to consider and even implement ASEAN-wide strategies in their approach to trading and investing in Southeast Asian markets. A Canada-ASEAN free trade agreement would be pre-mature, however. ASEAN must first show the resolve to eliminate its many non-tariff barriers between member countries, which would be an important component of any Canada-ASEAN free trade agreement. A bilateral free trade agreement with any or all of its East Asian country counterparts would also be a desirable stepping stone to either a Canada-ASEAN or a Canada-East Asia free trade agreement.

In support of existing and hopefully expanding economic relations, Canada would do well to consider entering negotiations of a Trade and Economic Cooperation Arrangement (TECA) with ASEAN. Indeed, the Committee recommends:

Recommendation 14:

That the Government of Canada commence negotiations of a Trade and Economic Cooperation Arrangement (TECA) with the Association of South East Asian Nations (ASEAN), which would include strong and appropriate human rights provisions.

6. Indonesia

a) Economic Overview

Indonesia, a country consisting of more than 17,000 islands, is the world's largest archipelagic state. With a population of 234 million people, it is also the fourth most

populous country of the world. Approximately 124 million people, or slightly more than 50% of Indonesians, live on the island of Java; it is one of the most densely populated regions of the world. Constitutional guarantees of religious freedom apply to the six religions recognized by the state: Islam (88%), Protestantism (5%), Catholicism (3%), Buddhism (2%), Hinduism (1%) and Confucianism (less than 1%). Combining the percentage of the population which practises Islam with that of the country's total population, one finds that Indonesia is the most populous Muslim nation, although officially it is not an Islamic state. There is considerable regional religious diversity however, as on the resort island of Bali more than 90% of the population practises Hinduism. Bahasa Indonesian — the national language, a form of Malay — is the language of most written communication, education, government, business, and media.

Indonesia's GDP was estimated at C$413 billion in 2006, amounting to C$1,860 per capita. The Indonesian economy is, therefore, the largest of the ASEAN economies and it has been growing by more than 5% per annum over the past five years. Indeed, given the exceptionally good performance of the economy in the first three-quarters of this year, real GDP growth could top 7% in 2007. In 2005, Indonesia ran a trade surplus with export revenues of US$83.64 billion and import expenditures of US$62.02 billion. Indonesia's main export markets are Japan (22.3% of Indonesian exports in 2005), the United States (13.9%), China (9.1%), and Singapore (8.9%). Indonesia's major import suppliers are Japan (18.0%), China (16.1%), and Singapore (12.8%).

The services sector dominates the economy in terms of value of output, as it accounts for more than 45% of GDP, and it is followed closely by industry (41%) and agriculture (14%). However, agriculture employs more people than other sectors, accounting for about 44% of the country's labour force of 95 million. The services sector employs 36.9% and industry 18.8% of the labour force. Major industries include petroleum and natural gas, textiles, apparel, and mining. Major agricultural products include palm oil, rice, tea, coffee, spices, and rubber. This economy is mostly market-based, but the government — or governments, since there are more than 400 of them when including regional governments — also plays a significant role. There are 158 state-owned enterprises, and the government administers prices on several basic goods, including fuel, rice, and electricity. Indonesia's major imports include machinery and equipment, chemicals, fuels and foodstuffs.

In March 2007, the Indonesian Parliament passed the government's new investment law that clarifies the legal framework for foreign investors, as well as providing certain incentives for FDI. The legislation replaces the 1967 Foreign Investment Law with an investment regime that is much more open to FDI across a wider number of sectors. Some of the key elements of the legislation are:

- Domestic and foreign investors (regardless of their country of origin) are guaranteed equal treatment;

- Investors may freely discharge their assets in accordance with other relevant laws;

- Investors have the right to freely repatriate and transfer funds in foreign exchange;

- The government will not nationalize or seize assets except through the issuance of a law;

- Land tenure rights are extended for those investments that improve economic competitiveness — land cultivation rights from 35 to 95 years, building rights from 30 to 80 years and land use rights from 25 to 75 years; and

- Foreign investors will be entitled to two-year residency permits that can be convertible to permanent residency permits.

The legislation also provides various tax incentives (i.e., exemption of income tax, import duties and value-added tax on capital goods, inputs and intermediate materials) for those investments that meet certain criteria. It also creates a ‘one-stop shop’ for investment approvals and licensing through the existing Investment Coordinating Board (BKPM).

Given the passage of the country’s new investment law, a large reduction in very generous government fuel subsidies, a more onerous budgetary spending approval process,[7] favourable balance of payments surplus, and an improved external debt management plan,[8] expectations are that the Indonesian economy will grow by more than 6% over the foreseeable future. Economists and government officials were cautiously optimistic in achieving this target, as it is widely believed that a 7% GDP annual growth rate is required to arrest any rise in the unemployment rate (11% in 2006) given that about 3 to 4 million new job seekers enter the labour market each year.

Economic growth rates of more than 7% were thought not possible without the government first addressing the country’s infrastructure deficit, a deficit that stands in stark contrast to the favourable circumstance found in China and Vietnam, and despite high recorded returns on investment. Resolution of the infrastructure deficit is believed

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7 No longer do ministries automatically get a 10% to 20% mark up over the previous year’s funding but have to justify any new increase in funding.

8 Indonesia pre-paid US$7.8 billion of its International Monetary Fund (IMF) obligations in 2006 and its foreign currency reserves grew to an all-time record of US$47 billion.

dependent on considerable investment — mostly foreign investment — which, in turn, depends on an improvement in the ministerial approval process, tax laws offering clearer rules and less arbitrary rulings, and a judicial system providing greater legal certainty.

b) Canada-Indonesia Trade and Investment Relationship

Canadian relations with Indonesia are both positive and growing since development assistance first began in 1954. Today, Canadian development assistance to Indonesia, concentrated in Sulawesi province, amounts to about $23 million per year. Following the tsunami disaster of December 2004, in which Aceh province was by far the most affected area — 170,000 dead and more than 500,000 displaced — Canadian citizens raised more than $213 million that will be spent over a five-year period in support of relief and reconstruction efforts in Indonesia and other affected countries.

Two-way trade between Canada and Indonesia totalled $1.74 billion in 2006, an increase of 6% from 2005. Canadian exports to Indonesia totalled $797 million in 2006, up 15% from a year earlier. Major export products included cereals, wood pulp and fertilizers. Canada is also a major exporter of asbestos to Indonesia, a fact that concerned some of the Committee members that travelled to the region. Indeed, Indonesia is the fourth largest destination in the world for Canadian asbestos, although the total value of asbestos exports has fallen by 60% since 2001. For their part, Canadian imports from Indonesia reached $946.7 million in 2006. Those imports consisted mostly of rubber, woven apparel and electrical machinery.

The stock of Canadian FDI in Indonesia was $3.17 billion in 2006, down 24% from an all-time of $4.2 billion in 2002. Indonesia ranked 19th overall in terms of Canadian direct investment abroad (CDIA), or fifth regionally (after Australia, Japan, Hong Kong and Singapore). Much of this investment is in the natural resources, manufacturing and financial services sectors. Major Canadian firms with investments in Indonesia include Manulife Financial, Sun Life, Husky Oil, Talisman, Palliser Furniture, Bata and, until its sale to the Brazilian Companhia Vale de Rio Doce (CVRD), Inco Inc.

A number of controversial rulings however, including a spurious bankruptcy judgment against Prudential Plc in 2004 in which the Government of Canada had to intercede, provide a general perception of corruption and an ineffective legal system that hampers foreign investment in, and trade with, Indonesia. Notwithstanding these challenges, and despite the loss of Inco Inc., further Canadian FDI flows to Indonesia look promising, leading to exploratory discussions on a foreign investment protection agreement between the two countries. Meetings of respective country ministry officials were also held to address Indonesia's ban on Canadian beef.

c) Economic Opportunities and Challenges in Indonesia

Indonesia holds significant trade and investment opportunities for Canadian firms. Canadian business opportunities lie mainly in manufacturing, power generation, mining and related equipment, and agriculture. However, investors face many challenges in doing business in Indonesia, including corruption and an uncertain regulatory climate. Although some of these challenges are believed to have been addressed with Indonesia's new investment law, suspicions linger. In July 2007, the government released its negative investment list that outlines sectors where foreign investment is restricted. The list provides an opening to foreign investment in 69 of 338 defined sectors, but 11 sectors became more restrictive and 25 sectors do not permit any foreign investment, up from 11 sectors. A "grandfathering" clause for investments already made in sectors not previously found on the negative list is expected. The Indonesian government has provided more clarity, but it is sending mixed signals on its intentions with foreign investment.

In support of existing and hopefully expanding trade and investment relations between Canada and Indonesia, Canada ought to consider entering negotiations of a FIPA. Such an agreement might also incidentally lead to greater trade between Canada and ASEAN. Therefore, the Committee recommends:

Recommendation 15:

That the Government of Canada enter negotiations of a foreign investment protection and promotion agreement (FIPA) with Indonesia.

7. Singapore

a) Economic Overview

Singapore has a robust and dynamic economy, being the third largest in Southeast Asia (after Indonesia and Thailand) notwithstanding a rather modest population of only 4.68 million people (2007), of which 3.7 million are permanent residents. Singapore's real GDP has grown by 7.7% on average over the past three years and, in the first half of 2007, it has grown a further 7.9% (annualized). As a city-state that can draw on only a limited number of natural resources — unlike many of its ASEAN neighbours who are endowed plentifully — but which is strategically located on major sea lanes of the Malaysian Peninsula, Singaporeans have built their economy based on a skilled labour force and modern infrastructure, complemented by a pro-business mindset and favourable trade and investment policies. This economy is dominated by manufacturing activities — principally, electronics and chemical products — and services — principally, wholesale and retail trade — and is valued at approximately US$132.2 billion in 2006.

Singaporeans, who speak and have adopted four official languages (i.e., Chinese (Mandarin), English, Malay and Tamil), can thus boast of a per capita annual income of US$28,248 in 2006, the highest in the region.

Singapore's formula for success has largely been a function of its ability to develop an export-based economy fuelled by foreign investment. Given its small domestic market, Singapore is highly trade dependent and, given that it is surrounded by neighbouring countries with a combined population of more than 3 billion and GDPs exceeding US$5 trillion, it has positioned itself as the gateway to Asia-Pacific. Consequently, Singapore is a major destination for FDI in high-tech industrial clusters, while many labour-intensive operations have moved to lower labour cost locations in the region. There are more than 7,000 multinational corporations from North America, Europe and Japan located in Singapore, and they account for about two-thirds of the country's manufacturing output and exports.

Singapore has adopted one of the most liberal and transparent trade regimes in the world, with customs duties levied on only six tariff lines (stout, porter, beer, ale and samsu). Singapore proactively pursues free trade agreements (FTAs) to liberalize and facilitate trade and investment, and to strengthen alliances with strategic geopolitical partners. Singapore has concluded FTAs with ASEAN, Australia, the European Free Trade Association, Japan, Jordan, Korea, New Zealand, Panama, and the United States. Consequently, in 2006, Singapore's merchandise exports amounted to US$289.3 billion, while its merchandise imports amounted to US$246.3 billion. Combining these two data, merchandise trade amounts to 405% of Singaporean GDP. Major export destinations in 2006 were Malaysia (13.1%), United States (9.9%), Hong Kong (10.1%), China (9.7%), Japan (5.5%), Thailand (4.2%), and South Korea (3.5%).

The Singapore government maintains rather conservative macroeconomic policies: (1) a close-to-balanced budget; (2) no external debt; and (3) an open capital account with a trade-weighted currency basket to set its currency exchange rate (i.e., a managed float). The Singapore government has large accumulated budget surpluses in the past few years — estimated in excess of US$70 billion — which it uses strategically to fund infrastructure projects and to promote key industrial sectors (e.g., electronics, chemicals, biomedical). The government has identified the country's low fertility rate and aging society as a priority concern. In 2006, Singapore's fertility rate was only 1.26 children, the third lowest in the world and well below the 2.1 needed to replace the population. To overcome this problem, the government has adopted a relatively open immigration policy.

b) Canada-Singapore Trade and Investment Relationship

Total bilateral trade between Canada and Singapore was $1.72 billion in 2006. Singapore is Canada's second largest export market in Southeast Asia, seventh largest in Asia, and 24th largest worldwide. In 2006, Canadian exports (including re-exports) to Singapore were at record highs, valued at $739.2 million, up 16% from 2005. Canada's top exports to

Singapore include machinery and mechanical appliances, electronic equipment, nickel, and optical and medical instruments. Singapore, in turn, exported $982.3 million to Canada, up just 1% from 2005. Canada's top imports from Singapore include machinery, medical instruments, and organic chemical products.

Stocks of Canadian FDI in Singapore were $4 billion in 2006, ranking Singapore as the second largest destination of Canadian FDI in Asia (after Japan, not including Australia and counting China and Hong Kong separately). These investments represent about 12% of total Canadian FDI in Southeast Asia. In turn, Singapore FDI in Canada was $41 million in 2006, placing Singapore as the 37th largest source of FDI in Canada.

There are an estimated 80 or more Canadian firms that have established operations in Singapore, including: Manulife, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto-Dominion Bank, Bell Helicopter Canada, Pratt & Whitney Canada, Standard Aero, Celestica, Cognos, Humingbird, Mitel Networks, Nortel Networks, Telus, Canpotex, Bata and Four Seasons Hotels and Resorts. They are attracted to Singapore not only to sell their products in the domestic market, but also because of its proximity to other larger Asian markets. For many of these Canadian firms, Singapore is the gateway to the Asia-Pacific region.

Since 2001, Canada and Singapore have been engaged in free trade negotiations. Canadian and Singaporean officials have held seven rounds of negotiations, the most recent in March 2007. These negotiations have covered diverse topics such as trade in goods, trade in services, investment, government procurement, dispute settlement, and competition policy. Contentious issues related to labour and the environment were addressed in a parallel set of meetings.

c) Economic Opportunities and Challenges in Singapore

Although Singapore offers commercial opportunities in many areas, the main sectors of growth have been in aerospace and defence, agri-food, biotechnology and life sciences, environment, and information and communication technologies (ICT). For Canadian companies wishing to expand their operations into Asia, Singapore may also serve as a commercial hub and springboard into the region. Singapore's English-speaking and skilled workforce, modern infrastructure, strong intellectual property (IP) protection, and network of FTAs together make Singapore an attractive location in which to invest in key knowledge-based and high-tech sectors.

In support of existing and hopefully expanding trade and investment relations between Canada and Singapore, Canada would do well to conclude its FTA negotiations with Singapore in a timely fashion. Such an agreement may also incidentally lead to greater trade between Canada and ASEAN. The Committee is of the opinion that, currently,

Singapore alone in Southeast Asia is sufficiently developed to commit to a comprehensive and enforceable set of free-trade obligations. Therefore, the Committee recommends:

Recommendation 16:

That the Government of Canada expedite its current negotiations of a free trade agreement with Singapore.

8. Vietnam

a) Economic Overview

Vietnam is a country of 85.3 million people divided amongst 54 ethnic groups, but with one dominant group known as the 'Viet' or 'Kinh' who account for more than 86% of the country's population. More than 70% of this population is under the age of 30 (a consequence of its protracted war in the '50s-60s and '70s). Vietnam remains mostly a rural, agricultural society as urban centres only account for 20% of the population. Not unrelated to this economic structure, Vietnam is a relatively poor country with a GDP per capita estimated at US$723.9 in 2006.

Vietnam's GDP was estimated at US$61.0 billion in 2006, growing by 8.2% over that recorded in 2005. Averaging a real GDP growth rate of more than 7% per year throughout the past decade, the Vietnamese economy is the fastest growing economy of ASEAN and the second fastest of Asia (behind China). With merchandise exports valued at US$39.8 billion and merchandise imports being US$44.9 billion in 2006, merchandise trade amounts to 139% of Vietnamese GDP. Additionally, Vietnam's inflow of FDI was US$10.2 billion in 2006, brining total FDI inward stocks to US$65.6 billion. Therefore, the Vietnamese economy is becoming very open and integrated with the global economy, aided and abetted by free market reforms, the AFTA, the U.S.-Vietnam Bilateral Trade Agreement (BTA) and Vietnam's recent accession to the WTO.

Table 2

	2002	2003	2004	2005	2006
Annual Real GDP Growth Rate	7.1%	7.3%	7.8%	8.4%	8.2%
Industrial Production Index (% change)	4.5%	15.5%	16.0%	17.2%	17.0%
Unemployment Rate (Urban)	6.0%	5.8%	5.6%	5.3%	4.4%

Source: International Monetary Fund, World Bank

In 1986, the Communist Party of Vietnam moved away from its planned economy model and implemented free market reforms, known more widely as *Đổi Mới* or 'New Age.' Although the political authority of the state remains uncontested, these reforms have included private ownership of farms and companies, deregulation, the adoption of a floating currency regime which included an initial devaluation of the Dong and the opening up of the domestic economy to foreign investment. The results have been spectacular:

- more than 7% real GDP growth per year for most of the 1990s and every year in the 2000s (see Table 2);
- poverty of 58% in 1993 has declined to 18% in 2007; and
- the country's external debt has fallen from 191% of gross national income (GNI) in 1993 to 33% in 2006.

Vietnam has clearly made significant economic progress. Land reform — that is, the de-collectivization of agricultural production — and the opening of the agricultural sector to market forces converted Vietnam from a country facing chronic food shortages in the early 1980s to the second-largest rice exporter in the world; other key Vietnamese exports are coffee, tea, rubber, and fish products.

The scope for private-sector participation in the manufacturing sector has also expanded, primarily through the introduction of laws giving legal recognition to private business and the reduction and elimination of subsidies provided to some state enterprises. The prices of most goods are now set by market forces, rather than controlled by the state.

Consequently, industrial production accounted for 41.5% of GDP in 2006, up from 27.3% in 1985; and exports of manufactured goods, especially labour-intensive manufactures such as textiles and apparel and footwear, have also grown.

If there has been disappointment in these market reforms, it has been the government's "equitization" initiative (i.e., transforming state enterprises into share holding companies and distributing a portion of the shares to management, workers and private foreign and domestic investors). State-owned enterprises in Vietnam are marked by low productivity and inefficiency, the result of their command-and-control resource allocation methods. Such a state of affairs cannot be corrected without new capital and operating procedures. However, to date, the government continues to maintain control of the largest and most important companies, and have not demonstrated any new market responsiveness in their resource allocation methods. Consequently, the state's share of GDP of 38-39% has remained relatively constant since 2000. It appears that only the privatization of these state-owned enterprises, which would include the ceding of control to private investors, rather than simply "equitizing" their capital structure, along with the development of modern capital markets will be required for the improvement in these companies' productivity/efficiency performances.

b) Canada-Vietnam Trading Relationship

Total bilateral trade between Canada and Vietnam was $864 million in 2006, up 13% from 2005 and more than six times that recorded in 1996. Canadian exports to Vietnam increased to $211.2 million in 2006 and are dominated by wheat: $75.2 million, accounting for more than one-third of total exports for the year. In value terms, exports of wheat are followed by exports of fertilizers (i.e., potash), machinery (i.e., boring and sinking tools and motor and engine parts), hides and skins, and fish and seafood. In turn, Vietnamese exports to Canada amounted to $652.8 million and consisted mainly of woven apparel, footwear, food products, and machinery.

Registered stocks of Canadian FDI in Vietnam were $414.7 million in 2006, placing Canada in 21st position among the largest foreign investor countries. Major Canadian investors include Talisman, Manulife, and Asian Mineral Resources.

c) Economic Opportunities and Challenges in Vietnam

Vietnam holds many trade and investment opportunities for Canadian firms. Canadian business opportunities lie mainly in the natural resources sector, information and communications technologies, agriculture, and education. However, investors face many challenges in doing business in Vietnam, including corruption and an uncertain regulatory climate. To alleviate these concerns, the Vietnamese National Assembly has recently passed 29 pieces of legislation designed to improve the domestic business climate, including an anticorruption law and two commercial laws which came into effect on July 1, 2006.

The Committee believes that, given that Vietnam's anticorruption laws are relatively new and have not been tested, further legal protections should be afforded Canadian investors. In support of existing and hopefully expanding trade and investment relations between Canada and Vietnam, Canada ought to consider entering negotiations of a FIPA. Therefore, the Committee recommends:

Recommendation 17:

That the Government of Canada negotiate a foreign investment protection and promotion agreement with Vietnam.

Open to trade, but not on just any terms
Bloc Québécois supplementary opinion

This is a very strange report. It jumbles up together Canada's trade relations with the European Union, the Gulf region and Southeast Asia. It presupposes that the solution to everything is freer trade, no matter what the conditions, without analyzing the implications and without distinguishing between profitable trade and trade that is likely to impoverish us.

Despite this, the Bloc Québécois has chosen not to dissent from the Report, because it contains one element that we strongly approve: it supports the conclusion of a free-trade agreement with the European Union.

As everyone knows, the Canadian petrodollar has shot up considerably vis-à-vis the American dollar, which is creating a real crisis in the manufacturing sector, the backbone of our economy. What is it less widely known is that the Canadian dollar has not gone up nearly so high against the Euro.

If our trade were more diversified, and we were less dependent on the United States, our manufacturing sector would be much less at the mercy of fluctuations in the value of the Canadian petrodollar. From this perspective, the European Union is the obvious partner.

Furthermore, a free-trade agreement with the European Union would be advantageous from the investment standpoint. Coupled with NAFTA, such an agreement would offer European businesses conditions that would encourage them to make Canada their gateway to the North American market, and therefore to do some of their production in Canada.

Quebec, where already almost 40% of European investment in Canada is concentrated, would be a natural destination for European firms wanting a toehold in North America.

Because partnerships between private enterprise, the state and workers are commonplace in Europe, where they are seen as a form of risk-sharing that ensures businesses greater security, European investors can find in Quebec a business environment with which they are familiar. There is every likelihood that Quebec would receive the lion's share of European investment in Canada.

Lastly, Europe is a continent whose residents enjoy a high standard of living, where there are strict rules governing human rights and environmental protection, and where there is an extensive social safety net. Concluding a free-trade agreement with Europe would not promote moves to cheaper offshore locations, a source of social and environmental dumping.

As for the rest of the Report, the Bloc Québécois dissociates itself from it because it does not focus primarily on increasing Quebec and Canadian exports, which are the guarantee of prosperity and employment. Instead, it focuses on making it easier for Canadian companies to do business abroad, and even move offshore, by multiplying agreements on economic cooperation and foreign investment protection.

This approach poses problems for the Bloc Québécois for two reasons.

On the one hand, we do not support the kind of foreign investment protection agreement (FIPA) that Canada concludes, or the Committee's recommendation to make greater use of such agreements. FIP agreements in their current form, which give multinational corporations the right to sue a foreign government directly if it adopts a measure, even a social or environmental measure, that might diminish the return on their investment, seem to us unreasonable and perverse.

A multinational should not have the power to instigate a trade dispute. This prerogative belongs to governments. Canada's existing investment protection treaties must be amended to bring businesses back under government authority before any new agreements are entered into.

On the other hand, and more generally, the Bloc Québécois has set out its trade policy priorities in detail in a dissenting opinion it drafted in response to the Seventh Report of the Standing Committee on International Trade, adopted last March.

As we said then, the trade environment has deteriorated considerably in recent years. Between 2003 and this year – in just four years – Quebec has gone from a trade surplus of $7 billion to an anticipated trade deficit of $15 billion. The Bloc Québécois's urgent priority is restoring balanced trade.

Trade in a product manufactured under conditions that flout major international agreements on labour, the environment and human rights is a form of unfair competition. It puts enormous pressure on our industry, gives noncompliant countries the advantage over countries that respect their international commitments, and encourages the exploitation of foreign workers and the degradation of the environment. This development model is not sustainable over the long term.

And since it is only by multilateral action that this situation can be regularized, the Bloc Québécois deplores the fact that the government is devoting all its energy to evading multilateral agreements in favour of more and more bilateral agreements.

To have access to foreign markets, countries should respect certain rules. The Bloc Québécois considers that this aspect must become the major trade priority for Quebec and for Canada, and strongly deplores the fact that the Committee has ignored it; it may well become a key international issue in the coming years.

These considerations, which could re-establish balanced trade, are missing from the Report. The Committee's support for freer trade with Vietnam is revealing in this regard.

Another example is the Committee's recommendation that Canada conclude a FTA and a FIPA with Singapore. The Committee appears to have approved this recommendation, innocuous enough at first glance, without any concern for the consequences.

Currently, a number of businesses are moving their production to China or other places where they can produce goods at a lower cost without having to worry about protecting the environment or respecting the rights of workers. The products then come back here in the form of cheap imports and threaten our own manufacturing jobs.

The only benefit that Canada derives from this comes from the taxes it levies on the profits of Canadian companies that have moved their production abroad. An agreement

with Singapore allowing Canadian companies to establish offices there responsible for coordinating their production activities in Asia would mean that from then on the profits these companies made on their foreign production would not even be taxable here anymore.

In short, the Committee is seeking to facilitate offshoring and the relocation of production. This approach, though likely to please a few multinationals, is absolutely contrary to our interests, and the Bloc Québécois does not support it.

Quebec is a trading society and needs access to the world to ensure its prosperity. The Bloc Québécois is therefore in favour of freer trade, but not on just any terms and under any conditions. Far from being doctrinaire, we base our judgments solely on the best interests of Quebec.

We say Yes to free trade with countries where production activities are carried on with respect for human rights, the environment and workers, like the European Union, and that is why we are not dissenting from the Report.

But we say No to poorly designed agreements like the FIPA as they are currently drafted, and to agreements that will encourage offshoring, the erosion of our manufacturing sector, and social and environmental dumping. We are therefore submitting this supplementary opinion.

DISSENTING OPINION

PETER JULIAN MP– NDP CRITIC ON TRADE – December 5, 2007

In negotiating trade agreements and expanding Canada's trade relationships with the rest of the world, it is impossible to separate human rights, labour rights and the environment from trade issues. Unfortunately, the report of the Standing Committee on Trade fails to recognize how these areas are necessarily intertwined in Canada's international trade. While the NDP believes that diversifying Canada's trade portfolio is of fundamental importance, we are not encouraged to see this attempt to strengthen economic ties with countries that do not respect human rights or democracy.

Since the implementation of the Canada US Free Trade Agreement in 1989, Canadians earning less than $60,400, or two-thirds of Canadian households, have seen a decrease in their real incomes. The income share of the richest 20% of the population now approaches 50% of all income, leaving less of the pie for everyone else. Clearly, free trade has only benefited the wealthy. The poorest of Canadians have seen their income drop so severely that they have lost the equivalent of one and a half month's income since the Canada US Free Trade Agreement and NAFTA were signed. Most Canadians are working even harder and longer hours to take home less pay. There has been a 48% overall increase in the number of Canadians working overtime since 1991, and the amount of hours overtime they are working has also increased, by 22% since 1991.

The NDP has already tabled a Dissenting Opinion in March of 2007 in which it outlined its vision for a fair trade policy for Canada.[1] The NDP reaffirms the vision of that dissenting opinion.

The NDP's International Trade Critic, Peter Julian, has also tabled a motion, M-308, which incorporates the principles of fair trade:

M-308 — October 16, 2007 — Mr. Julian (Burnaby—New Westminster) — That, in the opinion of the House, the government should ensure that all international trade treaties, agreements and investment policies it develops and advances: (*a*) adhere to ethical principles of economic justice and fairness; (*b*) uphold and respect international labor rights, including a sustainable wage, basic benefits, and collective bargaining rights; (*c*) promote the advancement of women in social and economic development; (*d*) advance democratic principles, broad-based equality, sustainable human development, and poverty alleviation; (*e*) secure the Earth's natural environment and respect the right and responsibility of people to maintain the global commons through the sustainable use of their local and traditional resources; (*f*) are evaluated in the light of their impact on those who are most vulnerable; (*g*) involve the meaningful participation of the most vulnerable stakeholders; and (*h*) respect the legitimate role of government, in collaboration with civil society, to set policies regarding the development and welfare of its people.

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[1] Julian, Peter. "Dissenting Opinion: New Democratic Party." *Ten Steps to a Better Trade Policy*, Report of the Standing Committee on International Trade. April 2007. 30th Parliament, 1st Session.

The NDP agrees that as far as Canada's relationship with the European Union goes, it makes perfect sense to try to increase Canada's trade with this group of nations. The EU is comprised of nations of similar economic size to Canada, with similar political systems. They are a good match for Canada's trade objectives.

The committee report makes some other valid technical recommendations about how to increase economic ties with other countries, and the NDP has pushed the committee to acknowledge that Canada needs to invest much more effort into trade promotion, something that has been cut by the current government. Overall, however, the majority report contains a sad lack of vision, and ignorance for human rights, as well a blind belief in free trade agreements.

For instance, the Minister of International Trade, in his appearance before this committee, referred to trade between Chile and Canada, which has grown since the implementation of a 1997 free trade agreement. However, the trade deficit between Canada and Chile has also grown; in Chile's favour. The Minister focused on the new investment avenues that the trade deal has provided to Canadian corporate investment in Chile, dismissing the importance of the deficit. Therefore, the policy of the Conservative government is clear: as long as Canadian corporations can use the investment protection clauses in a trade deal to acquire assets and maximize their profits in other countries, the loss of hundreds of thousands of well-paying Canadian manufacturing jobs is unimportant.

Can international trade be carried out without considering human rights?

The committee position in regards to the Arabian Peninsula is inappropriate. By advocating stronger economic ties with the Gulf Cooperation Council, whose largest member is Saudi Arabia, the committee is encouraging and legitimizing a regime that harshly represses human rights, particularly women's rights. While the economic opportunities in Saudi Arabia are considerable, its human rights abuses are overwhelming and can in no way justify increased trade.

Recently, a 19-year-old Saudi woman who was viciously sexually assaulted by seven men was sentenced to six years in prison and 200 lashes simply for being seen in public with a man prior to the assault. Turning a blind eye to this kind of betrayal of human dignity is itself criminal. It is inappropriate and unethical to negotiate privileged trade agreements with repressive governments such as Saudi Arabia and yet this is exactly what the majority of the committee recommends.

This committee also recommends pushing for closer economic ties with ASEAN, a group of countries in Asia that includes Burma's brutal regime, on which the Conservative government claims to be putting pressure. This is hypocrisy. Continuing to expand trade with Burma completely nullifies all of the symbolic pressure Canada may put on its military junta.

Asian *democracies* are the key priority of a diversified Canadian international trade policy. Canada has a rich cultural diversity that includes many people with cultural and economic links to Asia, links that could be used to help expand trade. There is no shortage of nations with excellent records on democracy and human rights with which Canada could build stronger trade links.

What sort of message does Canada really want to promote on the international stage? It is too easy to preach democracy and respect for human rights one moment and then turn around and continue to do business with some of the most despotic regimes on the planet. Where are the values of equality, social justice and democracy that are so frequently identified as 'Canadian'? They are sadly missing from international trade objectives and the committee report.

The government supported the Foreign Affairs Committee's Round Table on Social and Corporate responsibility, which recommended the implementation of a framework to hold companies accountable for their actions in developing nations. The spirit and content of the Round Table is being categorically ignored in the committee report.

The NDP has been consistently fighting for an alternative to the current trade policy. On March 28, 2007, the NDP presented another Dissenting Opinion to this committee, decrying a lack of fair trade in Canada. The issue of trade and human rights was recommended to be included as an important dimension of any trade policy:

> A policy in support of fair trade policy promotes labour rights, decent working conditions, and the respect of children and the environment by our trading partners. Trade has to often been automatically correlated to growth while in fact, unjust trade degrades competition and promotes the wealth of the very few and the exclusion of the many.[2]

When the Progressive Conservative government was negotiating the Free Trade Agreement with the United States in1985, the NDP also authored a report titled, "An Alternative Strategy: Fair Trade Vs. Free Trade," in which it called for fair trade, not free trade. This would be part of an ensemble of mechanisms that would encourage sustainable trade abroad and self reliance here in Canada. Twenty-two years later, however, the government still has not committed Canada to fair trade practices and continues to prefer trade with governments that commit egregious human rights abuses.

The NDP is also concerned with this committee's blank endorsement of the Conservative government's policy of bilateralism, in which it tries to negotiate as many NAFTA-template trade agreements with as many individual countries as possible. The

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[2] Julian, Peter. "Dissenting Opinion: New Democratic Party." *Ten Steps to a Better Trade Policy*, Report of the Standing Committee on International Trade. April 2007. 30th Parliament, 1st Session.

NDP acknowledges that the multilateral system and especially the WTO are in urgent need of reform and we believe completely abandoning international cooperation is a bad choice.

Why is fair trade a viable alternative?

New Democrats believe that fair trade is a real alternative with powerful economic and social opportunities. In a multilateral context, Canada can become a leader in expanding trade with other democratic nations, taking advantage of our rich diversity and cultural links around the world. Expanding trade with nations who have vibrant and healthy democracies, where industries respect workers' rights and encourage development, are the cornerstones of a healthy fair trade policy.

Fair trade incorporates social justice into its business practices. Fair trade focuses on local businesses that invest in the community and help to build local sustainability. Workers' rights and environmental rights are built into the foundation of business and empower both workers and consumers to make more sustainable choices.

It is a compelling economic choice. Fair trade produces stable jobs that can help combat poverty, allowing democratic nations to flourish and build a sustainable economy. For example, in Quebec, in 2000, 64% of cooperatives were still in business five years after starting up, whereas only 36% of private businesses had survived.[3]

Diversifying Canada's trade portfolio would also have the added benefit of lessening this country's almost complete reliance on the US market, which, through destructive legacies such as the softwood lumber sellout brought about by NAFTA, demonstrate the need for fair trade with other countries.

The NDP recommends the incorporation of a clear and well defined Human Rights Impact Assessment into any future negotiations on trade agreements with other nations. This is the single most important recommendation to be considered by the government.

Why is the government traveling in the wrong direction?

The Conservative government's response to these serious concerns about international trade and human rights has been embarrassingly weak. The Parliamentary Secretary to the Minister of International Trade and International Cooperation responded to an NDP question in the House on the government's negotiations with Colombia on a Free Trade agreement, a potent example of this government's dangerous disregard for human rights on international trade.

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[3] McLeod, Greg, "The Business of Relationships", In *Cooperatives and Local Development: Theory and Applications for the 21st Century*, edited by Chritopher D. Merrett and Norman Walzer (New York: M.E. Sharpe, 2004)., p. 309

The Parliamentary Secretary, as well as the Conservative members of the committee and the Minister of International Trade, have all consistently made the argument that,

> Human rights benefits can accrue to the people of other nations if we give them the opportunity to enter into trading relationships… opening doors to trading opportunities around the world is a way to advance human rights successfully and we will continue to do that.[4]

In sum, the belief of the Conservative government is a 'trickle down' effect for human rights: they believe rights will come simply by establishing trade links.

This argument is based on a flawed principle. Privileged trade with other countries does not bring advances in human rights and democracy and history has no shortage of such examples. For example, would the Conservative government have tried to negotiate a Free Trade agreement with Apartheid South Africa, Pinochet's Chile, or Saddam Hussein's Iraq in order to bring an end to their brutal regimes?

Will the Conservative government go as far as to claim that Canada's trade relationship with China has translated into more democratic rights for Chinese citizens? It has been eighteen years since the massacre at Tiananmen Square; Canada's trade with China has exploded, but democracy is still an illusory dream for the Chinese people.

The Conservative government is happy to style itself as tough on crime; however, it is clear that when it comes to organized crime such as in Colombia, where the government is trying to negotiate a Free Trade Agreement, corporate criminals will be home free.

When Canada trades with a government that abuses human rights, it is legitimizing the regime and its human rights abuses. Even worse, when Canada tries to negotiate privileged agreements with these governments, as the committee recommends, Canada is directly economically underwriting the ongoing existence of these brutal and despotic governments.

Trading with nations that are "politically stable"- in the words of the committee- but also have no democracy or freedom, is morally irresponsible. Thankfully, the NDP recognizes that it is not the only option. Forging a new trade policy based on multilateral fair trade would permit Canada to become a leader on the international stage. It would be a chance to undertake, one again, the kind of project that is uniquely Canadian: recognizing that important link between social justice and all spheres of government.

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[4] *Parliamentary Debates*, House of Commons. 39th Parliament, 2nd Session. Volume 142, Number 23. November 23, 2007.