

# Trade with Europe, India path to riches

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The global recession has brought home the realization that a number of Canadian industries are on an unsustainable path. The automotive and nuclear sectors readily come to mind.

Symptomatic of these struggling industries has been an overreliance on the domestic and American markets. Earlier this decade, Ernst & Young published a study that concluded that Canada was the lowest cost G8 jurisdiction in which to do business. In those heady days of growth, industry and government promoters heralded this report as confirmation of Canada's competitiveness.

In reality, the study was published at precisely the time when the innovation that would have softened the impact of the current recession was needed in Canada. The country earned top marks because it was an inexpensive place to do business, largely due to a currency that traded as low as 70 cents to the U.S. dollar. Canada's exports were driven by the strong purchasing power of those holding foreign currencies, and not by the underlying competitiveness of the economy.

The dollar's subsequent rise, coupled with a decrease in U.S. and global demand, have led to a record trade deficit of more than \$20-billion so far this year. Given the extent to which the Canadian economy is reliant on external trade, weak U.S. demand and fluctuations in the value of the Canadian versus the U.S. dollar, diversification of our trade and investment partners is necessary.

Canadian exports to the United States, as a percentage of the total, have

dropped to 76% from a record high of 90% earlier this decade. As we move to a world where power is more diffuse and regional alliances assume increasing importance, strengthening relationships with not just our continental partners, but also our transatlantic and Asian partners, will be essential to Canada's future prosperity.

The European Union, the world's largest single market, illustrates the benefits from removing economic

barriers between countries. By some estimates, the European Economic Union has generated an additional 1% annual GDP growth since its inception in 1967. While some fret about the EU's prospects for further integration, its single market is a real achievement that has provided European countries with a global presence that they would not possess had they remained independent.

Canada and the EU embarked on comprehensive free trade negotiations this week in Ottawa. The deal is a potentially transformational development and reflects the size of the underlying economic relationship -- bilateral trade and investment now amount to close to half a trillion dollars.

India presents a different set of challenges and opportunities. As Canada's economic partnership is not as fully developed with India as it is with Europe, the commitment to proceed with Free Trade Agreement (FTA) negotiations reflects a desire to deepen the scope of the relationship. This will include eliminating unnecessary regulatory constraints that prevent Canadian companies from fully participating in the burgeoning Indian market. For the Indians, an FTA would help their companies to establish an economic hold in North America, provide access to raw materials and more fully engage the Indian diaspora in Canada, numbered at close to two million people.

Coupled with efforts to improve relations with our NAFTA partners and strengthen our trading relationship with China, current trade priorities will put Canada on a sustainable path. An important result of these negotiations will be further liberalization of trade inter-provincially, which will allow Canada to regain its position at the heart of World Trade Organization negotiations, once they resume.

There may be industries and public who feel that they have more to lose than gain in these negotiations. It will be incumbent upon our political leadership to explain the proposed changes and clearly articulate the benefits that these agreements will bring to the Canada.

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