



**CANADA AS AN ECONOMIC PERFORMER,
GLOBAL COMPETITOR AND BUSINESS PARTNER**

**CANADA AS AN ECONOMIC PERFORMER,
GLOBAL COMPETITOR AND
BUSINESS PARTNER**



PRESENTATION TO CHINESE GUESTS AND
PARTICIPANTS OF THE TEAM CANADA MISSION TO CHINA
BY THOMAS D'AQUINO
PRESIDENT AND CHIEF EXECUTIVE
BUSINESS COUNCIL ON NATIONAL ISSUES
AND CHAIRMAN
CANADA GLOBAL LEADERSHIP INITIATIVE
BEIJING, FEBRUARY 12, 2001

*Presentation available in Chinese



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No emerging economy offers greater potential for Canadian ideas, products and services than China.

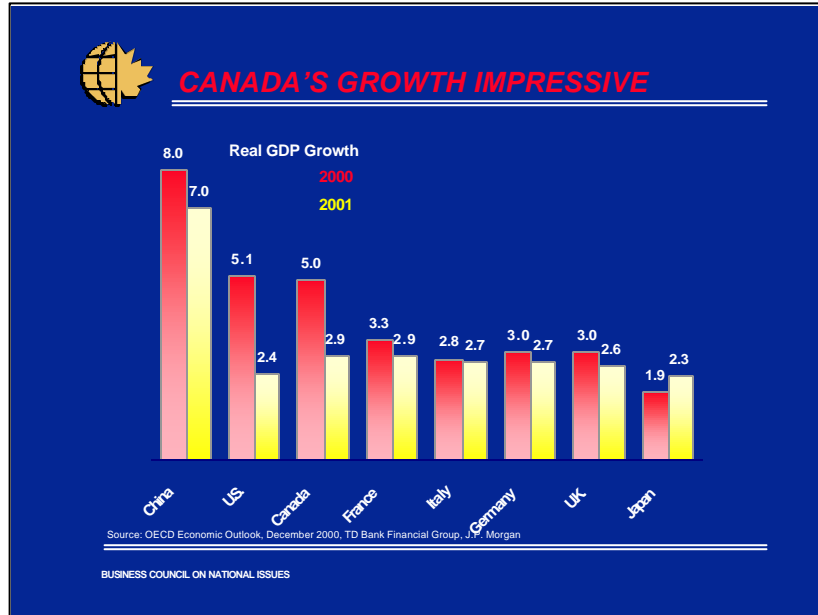
The Team Canada mission to China is a convincing demonstration on the part of Canadian governments and business leaders alike that China presents remarkable opportunities.

But the real potential in the relationship will blossom only if our Chinese counterparts understand the fundamentals of Canadian economic performance and the multidimensional strength and capabilities of Canadian enterprise.

Canada as an Economic Performer, Global Competitor and Business Partner offers such a perspective.



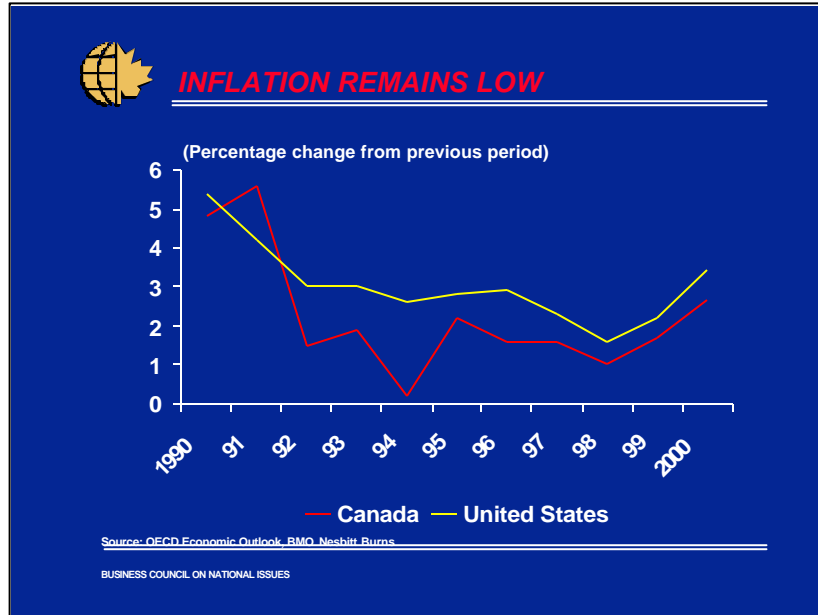
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- & After a strong 2000, Canada's real economic growth is expected to be considerably more modest in 2001, dropping from 5 percent to under 3 percent.
- & Canada has experienced the longest expansion in over three decades with twenty-one consecutive quarters of growth.
- & Given the dramatic increase in Canada-United States economic integration over the past decade, lower American growth will affect Canada significantly.
- & Nevertheless, Canada will still be among the G-7 growth leaders this year.



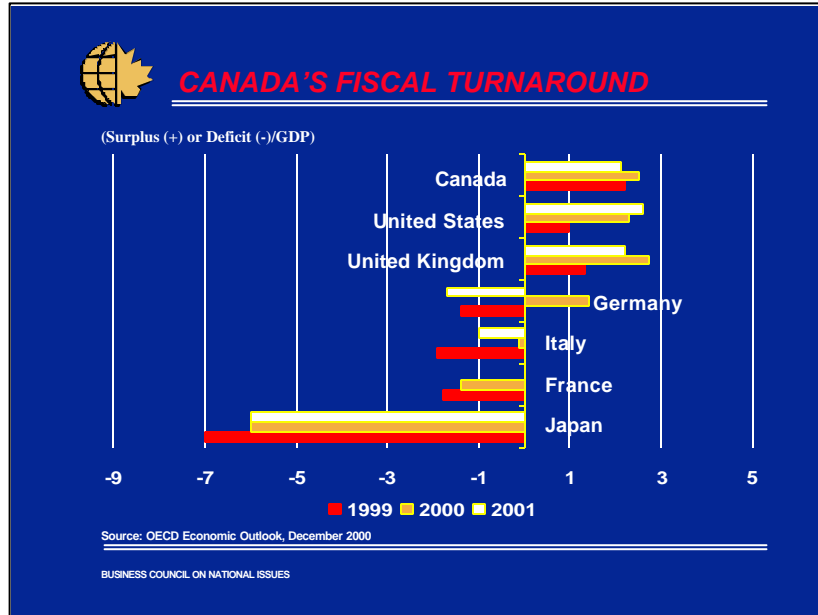
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- & Over the past five years, Canadian inflation has averaged 1.7 percent. This is 30 percent lower than American inflation over the same period.
- & The result has been immensely positive contributing to low domestic interest rates.
- & In December 2000, the core inflation rate for Canada was 1.9 percent, well within the Bank of Canada's upper limit.
- & Two additional indicators are encouraging: Canada's unemployment rate is at a twenty-five year low and Canada's job creation record leads the G-7.



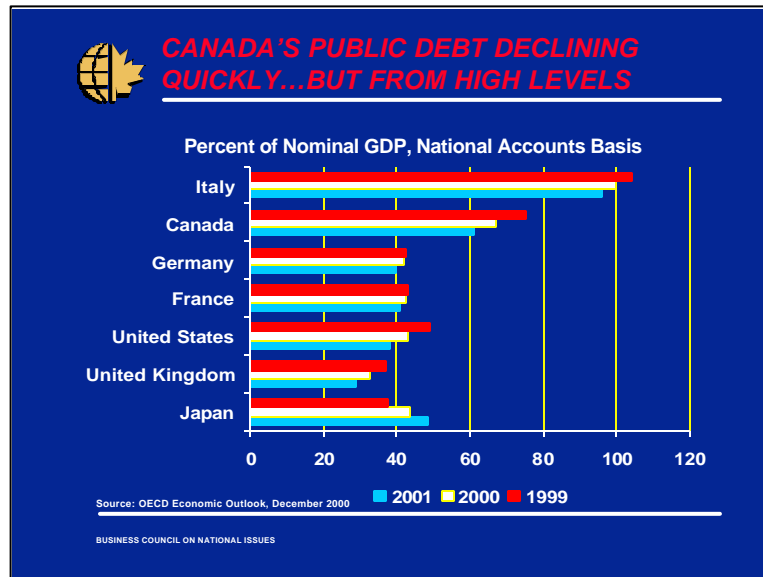
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- & **Sound macroeconomic policy has given a major boost to Canada's growth prospects.**
- & **In the early 1990s, Canada's national balance sheets were in dangerous shape. By 1997, however, Canada posted a surplus -- the first G-7 country to do so in the 1990s. In 1999, Canada had the highest financial surplus relative to GDP in the G-7 and continues to post strong surpluses.**
- & **One reason for the fiscal turnaround is that government spending as a percentage of GDP has declined to a fifty-year low.**




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- & Even Canada's public indebtedness, which a decade ago reached alarming proportions, has shown dramatic improvement.
- & Total indebtedness will fall to about 60 percent of GDP on a national accounts basis this year.
- & Within five years, Canada's federal indebtedness is expected to fall below 40 percent of GDP.
- & Today, combined federal and provincial *foreign indebtedness* has fallen to 31 percent of GDP from a high of 45 percent in 1993.
- & The Institute for Management Development, based in Lausanne, Switzerland, ranked Canada as the best fiscally managed country in the G-7 in 2000.



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THE LARGEST FEDERAL TAX CUT IN CANADIAN HISTORY



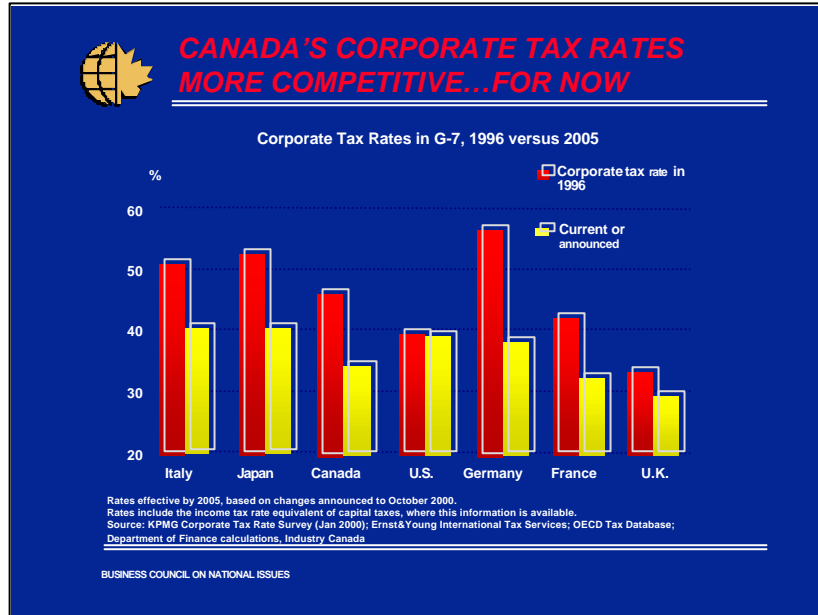
- & In October 2000, the Minister of Finance, Paul Martin put into place the largest tax cut in Canadian history -- C\$ 100 billion over five years.
- & Personal income taxes were cut at all levels, lowering taxes by 21 percent on average, but focussing on middle income earners.

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- & **In October 2000, Canada's Minister of Finance Paul Martin put into effect the largest federal tax cut in Canadian history.**
- & **A C\$ 100 billion tax cut package took effect January 1, 2001 and will be implemented over five years.**
- & **Most of the cuts will affect the personal income tax burden. Personal taxes have been cut at all levels of income, making Canada a much better place for Canadians to work, to invest and to save.**



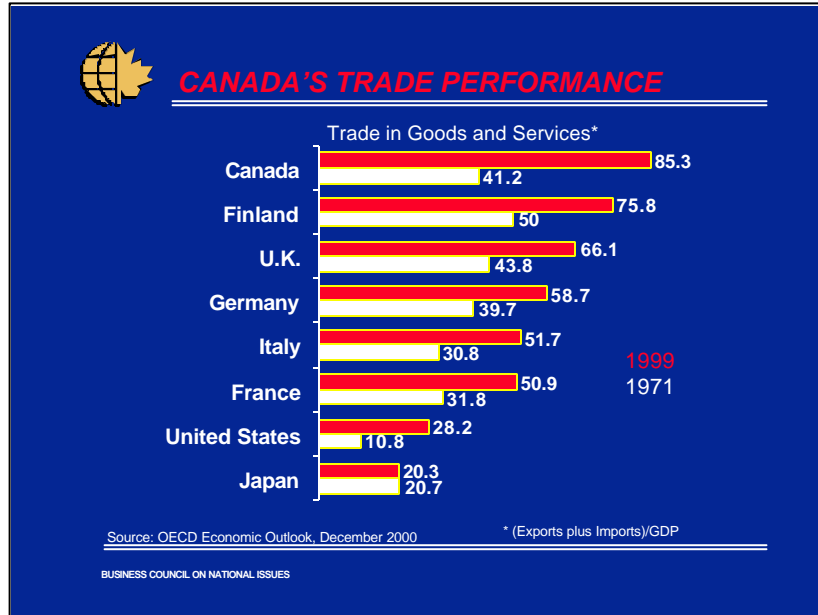
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- & Finance Minister Martin also announced cuts in corporate income tax rates that will reduce the average corporate tax rate for business in Canada to 32 percentage points -- almost five points lower than in the United States.
- & Other personal tax cuts will boost the formation and growth of Canadian-based companies. In particular,
 - ✎ the capital gains tax rate in Canada has been cut to 23 percent -- lower than in the United States;
 - ✎ Canada's treatment of stock options is now more generous and flexible than in the United States.



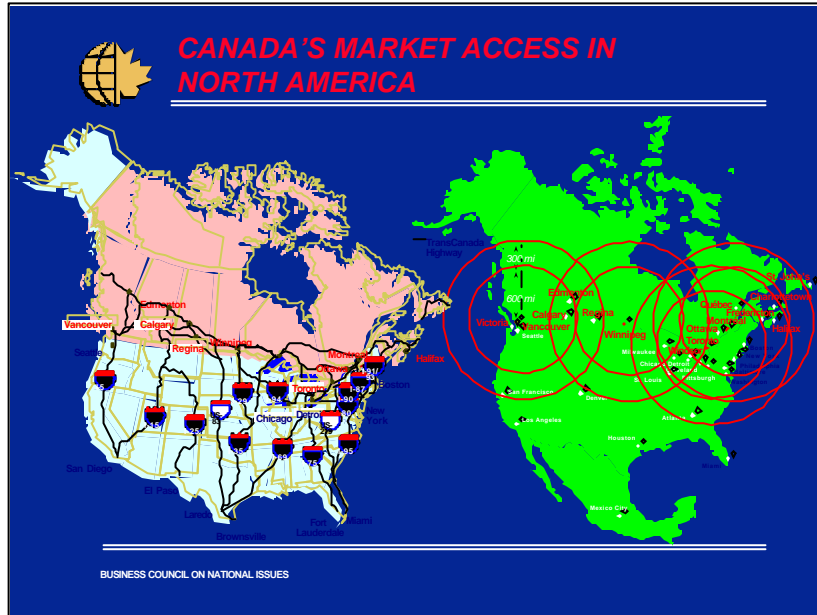
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- & Canada's trade performance has been exceptional. Between 1971 and 1999, Canada's trade as a percent of GDP doubled from 41 to 85 percent.
- & Canadian companies have been quite aggressive in taking advantage of export opportunities and falling borders.
- & Partly as a result of explosive growth in trade, and lower interest costs on our debt to non-Canadians, the country's current account surplus is at an all-time high.



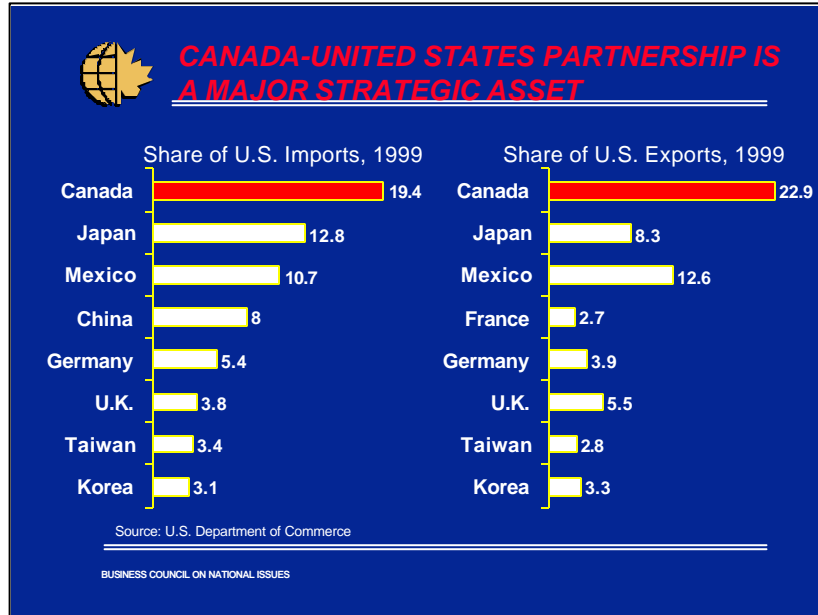
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- & Canada has unrivalled access to the North American market -- four hundred million people with a combined GDP of over US\$ 9.4 trillion.
- & Almost half of the United States population lives within a ten hour drive of Toronto.
- & The North American market has a well integrated and efficient transportation system, rated as one of the best in the world.
- & Canada and the United States are linked by an *Open Skies* agreement concluded in 1995. Since then, the number of scheduled flights between Canada and the United States has grown by more than 70 percent.



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- & The Canada-United States partnership is a major strategic asset. Canada and the United States have the world's largest trade partnership, with two-way trade amounting to C\$ 560 billion in 1999. This averages to about C\$1.4 billion per day in trade.
- & In country to country terms, Canada purchases the largest share of American imports. Canada also exports considerably more to the United States than does Japan, and almost as much as the combined countries of the European Union.
- & Between 1994 and 1999, trade between Canada and the United States grew at a compound average annual rate of 8.3 percent.
- & Last year, Canada's trade surplus with the United States reached a staggering \$92 billion.



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- & The emerging Asian economies are still largely untapped markets and offer significant long-term potential for Canadian exporters.
- & With its geographical location, its immigration links and its active involvement in APEC to reduce trade barriers, Canada is uniquely positioned to gain from the long-term potential of Asian economic growth.
- & In bilateral single country terms, Japan is Canada's second most important trading partner.
- & China has been designated by Canadian business leaders as the emerging market with the highest, long-term potential.



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- & **Canada-China trade is really beginning to blossom.**
- & **As indicated in this graphic, imports from China approached C\$ 12 billion in 2000 (a 33 percent increase over 1999) while exports to China surpassed C\$ 4 billion (a 70 percent increase over 1999).**



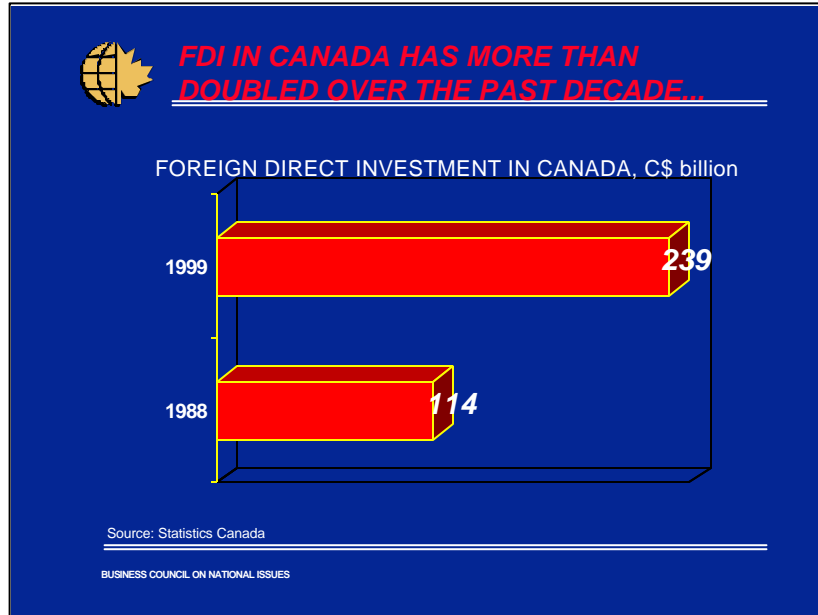
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- & This graphic demonstrates that Canada's corporate presence in China is expanding.
- & While Canadian companies have to do much more to take advantage of opportunities, the momentum is moving in the right direction.



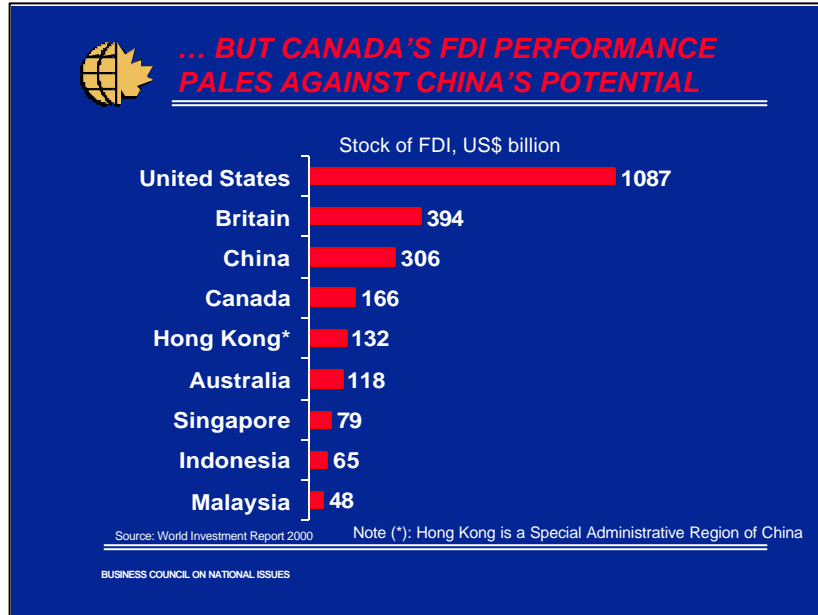
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- & Returning now to overall foreign direct investment in Canada, it is noteworthy that it has more than doubled since 1988.
- & Significantly, the share of FDI into knowledge-based, high-technology manufacturing and services has increased over the past decade.
- & The United States share of FDI in Canada was 72 percent in 1998.



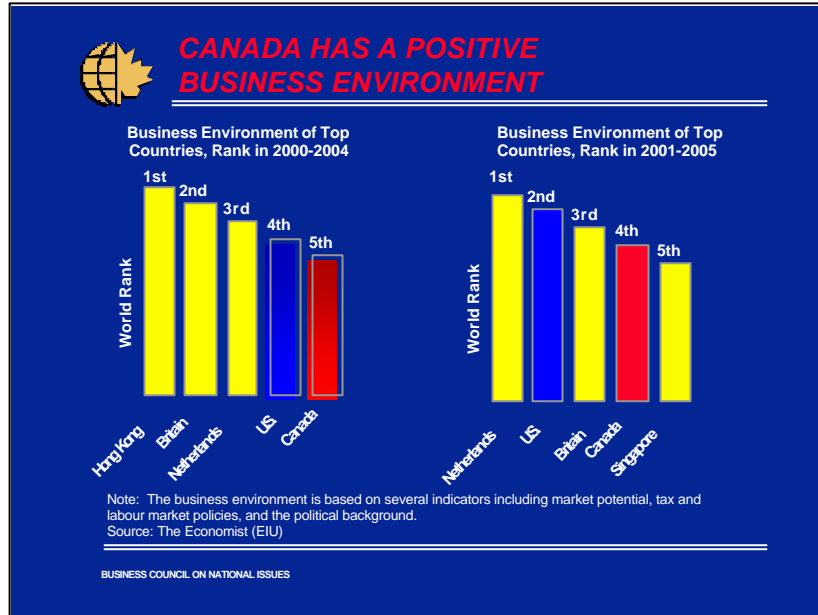
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- & Canada's FDI performance, impressive though it has been, pales in comparison to China's extraordinary potential.
- & According to the World Investment Report, China's stock of FDI was US\$ 306 billion in 1999 (but is estimated to be as high as US\$ 350 billion). This is much larger than other Asian economies considered more open to FDI.
- & China's FDI is exceeded only by the United States and Britain and has accounted for 25 percent of total FDI to developing countries since 1990.
- & China's FDI boom has set the stage for a dramatic increase in exports and greater competitiveness in the coming years. China's exports have increased from US\$ 2.3 billion in 1970 to US\$ 290 billion in 2000 (21 percent of GDP).
- & As a full fledged member of the WTO, FDI flows into China could reach US\$ 100 billion per year by 2005.



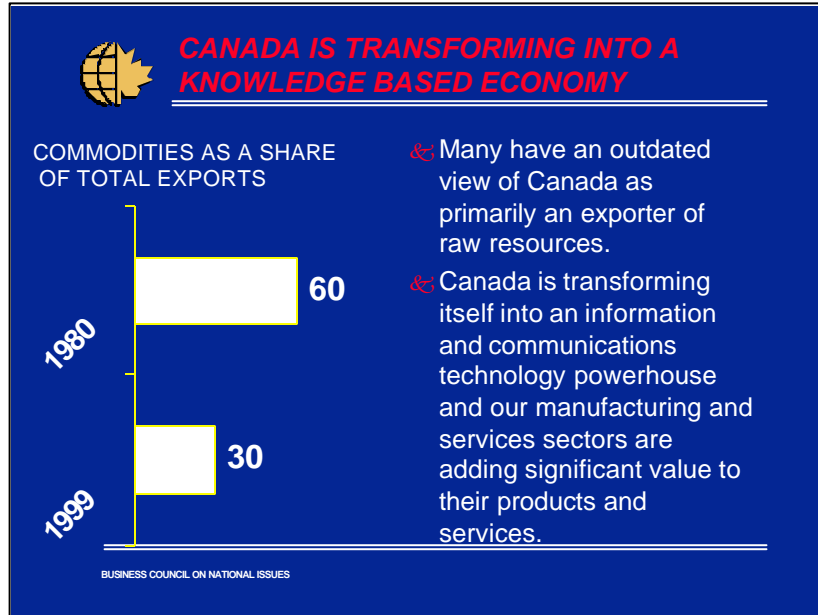
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- & The Economist Intelligence Unit ranks Canada highly in terms of its business climate.
- & In 2000, Canada ranked *fifth* after Hong Kong, Britain, the Netherlands, and the United States based on indicators such as market potential, tax and labour market policies and political background.
- & As of January 2001, Canada has moved up to *fourth* place (indicated in graphic on right).




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- &** Many have an outdated view of Canada as primarily an exporter of raw resources.
- &** Canada is transforming itself into an information and communications technology powerhouse and our manufacturing and services sectors are adding significant value to their products and services.
- &** For example, our exports of commodities as a share of total exports has dropped from about 60 percent in 1980 to 30 percent in 1999.
- &** So-called *new economy* industries contributed forty percent of Canada's growth last year.



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 **CANADA'S UNIVERSITY SYSTEM STANDS UP TO THE BEST**

	Institution	Score	U.S. Rank	Cdn. Rank
RANKING OF ELECTRICAL ENGINEERING UNIVERSITY PROGRAMS	M.I.T.	4.92	1	
	Stanford	4.91	2	
	Berkeley	4.88	3	
	Illinois	4.86	4	
	Toronto	4.85		1
	UCLA	4.82	5	
	McGill	4.82		2
	Cornell	4.81	6	
	U.B.C.	4.81		3
	McMaster	4.80		4
	Purdue	4.79	7	
	Southern California	4.77	8	
	Princeton	4.76	9	
	Michigan	4.75	10	
	Carnegie Mellon	4.74	11	
	Polytechnic-Brooklyn	4.73	12	
	Queen's	4.72		5
	Alberta	4.72		6
	Calgary	4.71		7
	Polytechnique, Mtl.	4.70		8
	Saskatchewan	4.70		9
	Manitoba	4.70		10

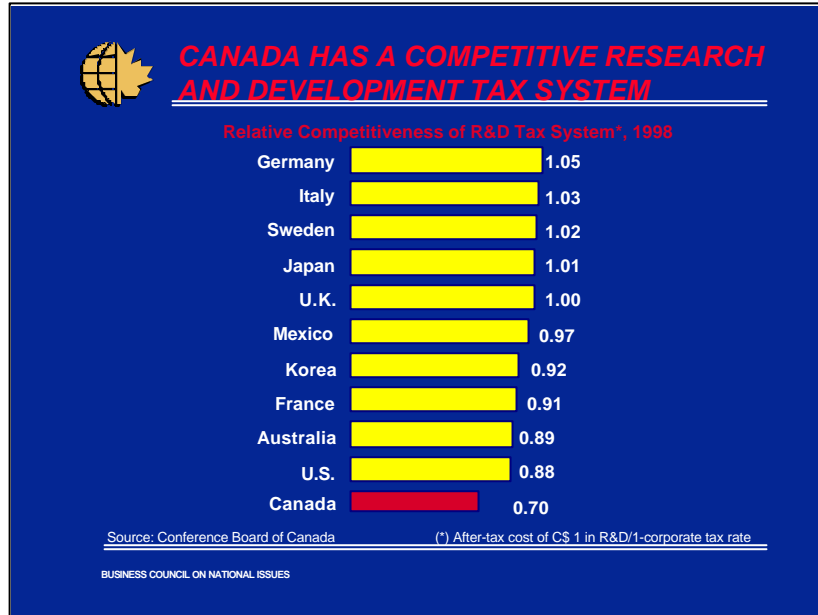
Source: The Gourman Report, Undergraduate Programs, 10th Edition 1998

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- & Canadians are well educated. A greater proportion of Canadians complete college or university than in any other industrialized country. The United States is second.
- & In 1998, the United States Gourman report scored 10 Canadian electrical engineering programs in the top 22 in North America, and 18 in the top 40.
- & Canadian universities are home to seven of the top twenty computer engineering schools.
- & Canada's 67 universities and colleges produce more than 25,000 graduates per year in math, engineering and pure and applied sciences.




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- & **Canada has the most generous tax treatment of research and development in the OECD.**
- & **Companies such as Nortel Networks, and many manufacturing and resources companies, contribute significantly to research spending within Canada.**
- & **Still, total R&D spending in Canada is growing from a relatively low level, both in terms of basic and applied research.**
- & **To accelerate R&D spending, the federal government has put in place the Canada Foundation for Innovation to boost research infrastructure. It has established 2,000 new research chairs in Canadian universities, and launched 13 new institutes for research into areas such as cancer, aging and children's health.**



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 **CANADA IS ONE OF THE MOST CONNECTED COUNTRIES**

Connectedness Rankings*
Conference Board of Canada – 10 Country Comparison

	Overall Connectedness	Infrastructure	Access	Affordability	Usage	Socio- Economic Enablers
U.S.	1	1	4	4	1	1
Canada	2	2	3	1	2	2
Sweden	3	6	1	1	4	6
Finland	4	3	2	3	7	9
Australia	5	5	6	6	3	3
Japan	6	9	5	7	5	4
U.K.	7	5	8	5	5	9
Germany	8	7	7	8	8	7
France	9	9	10	9	10	5
Italy	10	10	9	10	9	10

* Based on a composite index. The comparisons were based primarily on 1997-98 data.
Source: Conference Board of Canada
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- & Canada has a world-leading communications infrastructure.
- & Canadians lead the G-7 in a number of key indicators:
 - ✦ first in telephone and cable penetration,
 - ✦ first in telephone affordability, both business and residential,
 - ✦ first in Internet and wireless affordability,
 - ✦ the highest percentage of the country online in the world.
- & Canada was the first to connect all schools and libraries to the Internet.
- & Canada has the highest per capita ownership of home computers.
- & Canada has the world's fastest and most advanced optical infrastructure and Internet backbone.



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CANADA IS AN ICT POWERHOUSE...

- & 75 percent of all backbone Internet traffic in North America is carried on Canadian products
- & First to deliver 10 gigabit/second systems, now selling to over 90 percent of the world market
- & Largest designer and manufacturer of optical components in the world
- & 1999 Info World Product of the Year - the Blackberry, a wireless communications device
- & Canadians develop over 60 percent of the special effects software used in Hollywood
- & Euro coin was designed using Canadian software

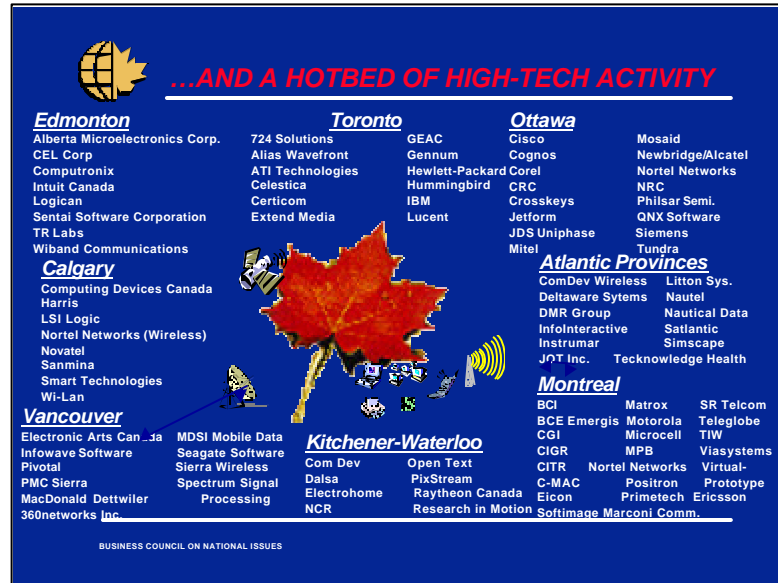
BUSINESS COUNCIL ON NATIONAL ISSUES

& Canada is an information and communications technology powerhouse:

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- ⌘ largest designer and manufacturer of optical components in the world;
- ⌘ 1999 Info World Product of the Year -- the Blackberry, a wireless communications device;
- ⌘ Canadians develop over 60 percent of the special effects software used in Hollywood;
- ⌘ the Euro coin was designed using Canadian software.



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- & In short, Canada is a hotbed of high-technology activity.
- & As this graphic indicates, high-technology clusters are flourishing across the country.
- & Canadian companies across all sectors of the economy are capitalizing on our high-tech strategic advantage with dramatically higher machinery and equipment investment.



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CANADA CAN BE A SIGNIFICANT PARTNER IN HELPING TO FULFILL CHINA'S POTENTIAL

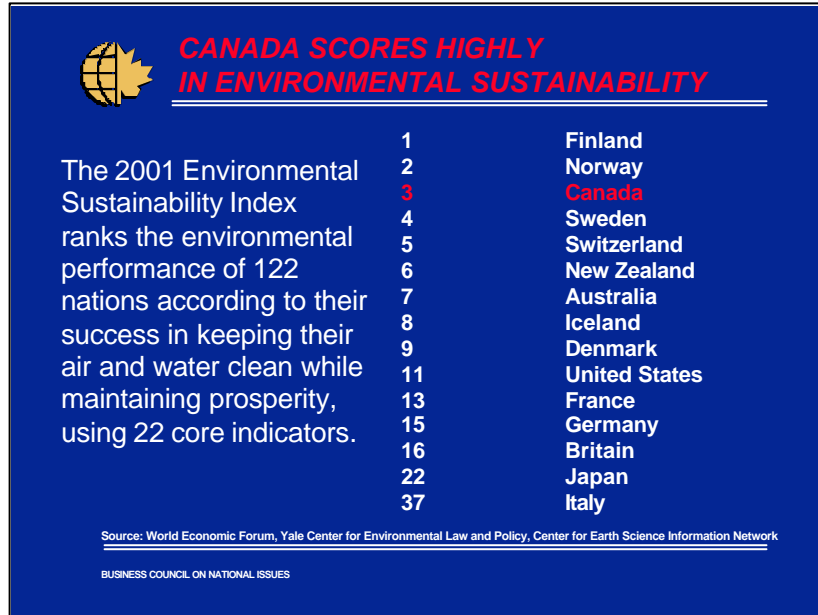
- & The second most popular language on the Internet by 2005 most likely will be Chinese.
 - & China currently has 10 million people using the Internet. This number is expected to grow to 300 million in the next five years.
 - & Personal computer sales could soon exceed twelve million units per year.
 - & Cellular phone usage is expected to surpass 100 million in the next three years.
 - & The increased use of technology indicates clearly the rapid pace of growth in China.
 - & Canadian companies can contribute to the economic transformation taking place in China today, and expected in future.
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- & **The second most popular language on the Internet by 2005 most likely will be Chinese.**
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- & Because of its northern climate, large territory and extensive resources, Canada's economy remains energy-intensive. Canada also is a leader in environmental sustainability.
- & The 2001 Environmental Sustainability Index tracks and ranks 122 countries using 22 core indicators and then measuring them with a set of 67 variables. This year, Canada ranks third.
- & Canadian companies are taking the sustainability challenge seriously, because it makes good sense to do so -- both as global citizens and to generate competitive returns for shareholders.
- & Canada is a leader on the international scene in terms of promoting market based mechanisms that will accelerate global progress toward sustainable growth.



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**CANADIANS ENJOY A
HIGH QUALITY OF LIFE**

**& United Nations
Human
Development
Report ranked
Canada first in
human
development for
the seventh year
in a row.**

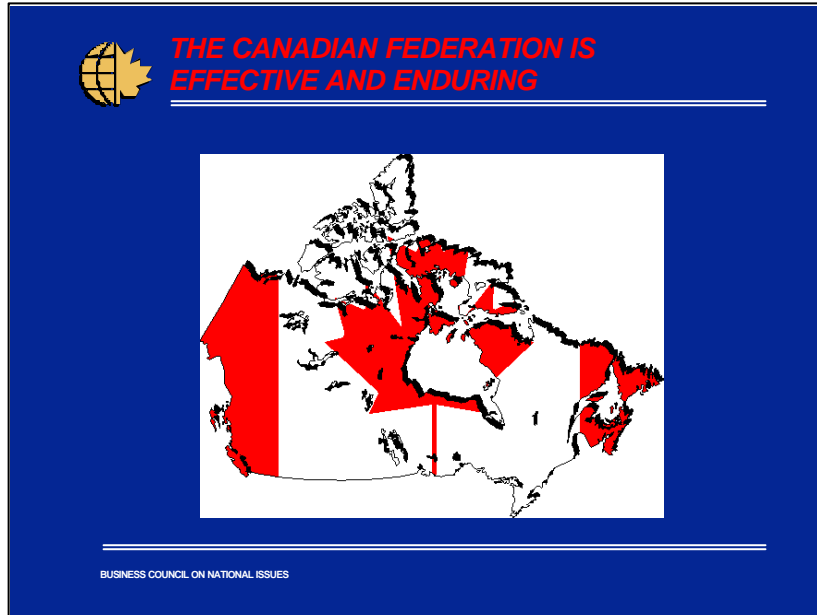


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- & Canadians take pride in scoring first among countries seven years in a row according to the United Nations Human Development Index.**
- & Canada's economic transformation over the past decade has enhanced its long-standing reputation as a superb place to live.**



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- & Strong and effective political institutions and governance are critical to economic leadership.**
- & While the Canadian federation is one of the most effective and enduring in the world, it has experienced stress from time to time. The federation has always accommodated these stresses.**
- & One such stress is the independentist threat in Quebec. But, Quebecers have voted to remain a part of Canada -- four times within the last nine years. The preference of Quebecers is clear.**



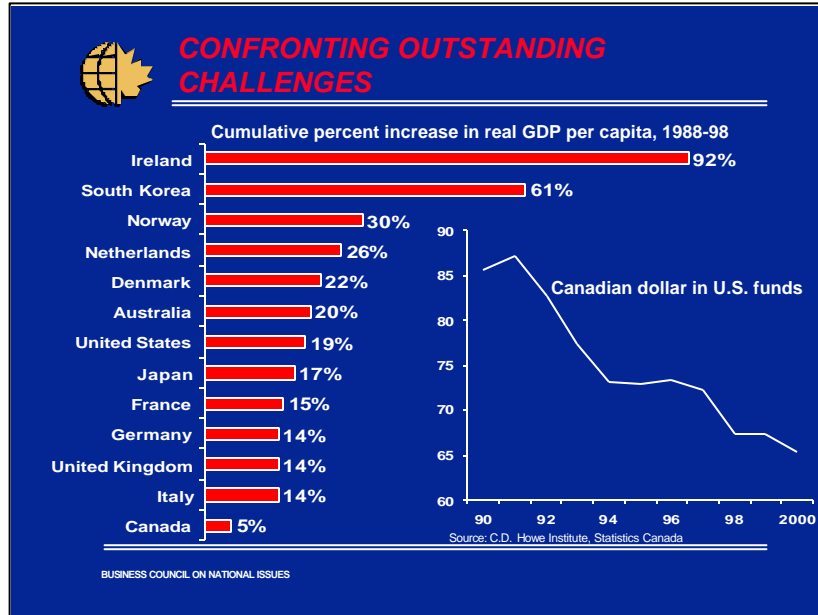
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- ⌘ **After a difficult decade of structural change, Canada is poised to achieve even greater economic successes.**
- ⌘ **A solid foundation has been laid. Now Canadian governments, and enterprises must build on that foundation.**
- ⌘ **This will require continued reforms and a relentless commitment to excellence and innovation.**



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& Despite Canada's exceptional performance, the country faces some major challenges such as a relative decline in standard of living in real per capita GDP terms, weak productivity growth, and a currency that has not performed nearly as well as its American counterpart.



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CANADIAN PRIVATE SECTOR PRIORITIES

- & The priorities of Canada's private sector include: accelerated public debt reduction, further structural tax reform, more effective government spending, enhanced competition within Canada, greater openness to foreign investment, greater openness to trade within Canada, extension of continental and global agreements on trade and investment.
- & There is growing concern about the short-term direction for the global economy. But whether the world is heading for a soft landing or a hard one, the progress that Canada has made already means that our prospects are solid.

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