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CANADA'S ECONOMIC INTERESTS IN THE MIDDLE EAST

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An examination of Canada's trade policies was conducted along with an assessment of the impact on trade of both economic and political developments in the Middle East. An overview of Canada's trade with the region as well as its potential areas for future growth are outlined in the following.

KEY FINDINGS

- While Canada has experienced significant trade growth with the region in recent years, it is pertinent that a stronger effort must be made to strengthen and deepen Canada-Middle East economic relations. This is increasingly true for the six states that make up the Gulf Cooperation Council (GCC), one of the fastest growing regions in the world over the past decade.
- The GCC, beyond offering substantial opportunity for economic activity itself, can also be seen as the crucial hub for trade in the MENA region.
- If Canada is to capitalize on the potential of this growing market, it must make engagement with the GCC a policy priority. Recent progress in Kuwait, Jordan and Morocco on FIPAs and FTAs are a good start, but lack the scope and market potential that would be opened up through a comprehensive Free Trade Agreement with the GCC.

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[I] This brief builds upon the previous work of the authors of *Canada's Economic Interests in the Middle East* (Momani & Antkiewicz, 2007).

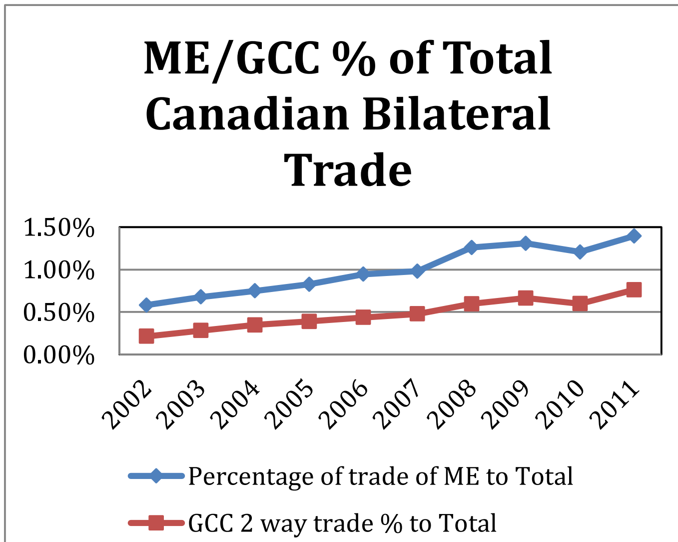
CANADA'S TRADE WITH THE MIDDLE EAST (2002-2011)

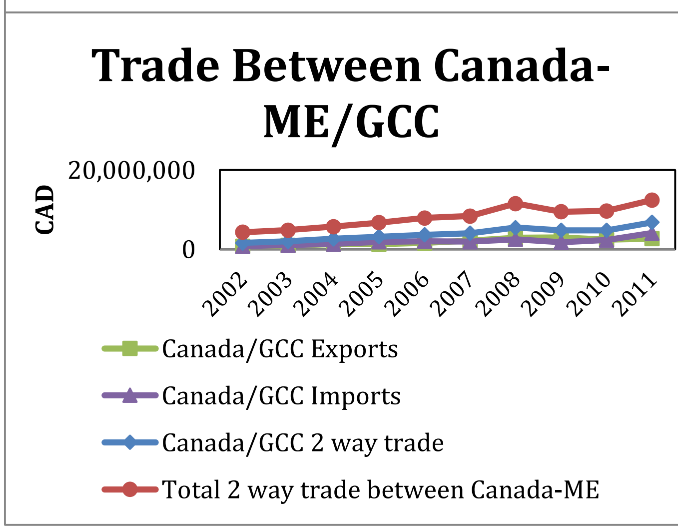
Over the past decade, Canada has substantially increased its trade presence in the Middle East, with **exports to the region growing by 168%** while **imports increased 200%.** This resulted in an overall increase in 2-way trade of 187%, far exceeding Canada's growth in trade overall, which totaled 20% over the same time period[1].

This rapid growth occurred despite the Canadian government's trade efforts focused on establishing economic agreements with emerging economies (Brazil, India) and Latin America, where they are currently pursuing an agreement with MERCOSUR after concluding FTAs with Colombia, Peru, Panama and Honduras[2]. The increase in trade, despite the disappointing level of engagement by Canadian officials, is a testament to the development of the region as whole.

The Middle East has become an increasingly important trading partner for the Canadian economy, representing 1.4% of total Canadian trade, up from 0.6% in 2002. This growth has been primarily driven by trade with the GCC countries, with **total two-way trade increasing by 325%** over the past decade to a total of $6.8B in 2011. The GCC region alone now accounts for a greater percentage of Canadian trade (0.76%) than the entire ME region did in 2002.

Interestingly, bilateral trade with the GCC rivals that of other notable priority markets for Canada. For example, **in 2011 the GCC trading bloc held a higher percentage of total bilateral trade with Canada than the more highly sought after emerging markets of India and Brazil.**





[1] Unless otherwise noted, statistics quoted in the text are the authors' calculations based on International Trade Canada Data

[2] http://www.international.gc.ca/media_commerce/comm/news-communiques/2011/178.aspx?lang=eng

While the growth in both exports and imports in the region are certainly positive developments for Canada, it has consistently run a negative trade balance with the Middle East region. In 2011, the negative trade balance in the region rose to $3.8B, as Canada experienced a significant jump in imports from the oil exporting nations of Iraq, Saudi Arabia and UAE from 2010 to 2011. As a result, the trade balance with GCC was negatively impacted, falling to -$1.4b in 2011 after fluctuating between surpluses and deficits for much of the decade.

This negative trade balance stands in stark contrast to Australia, a country with a similar economy to Canada's[3], which has experienced consistent trade surpluses with the region. Australia appears to have put more effort into fostering strong trade ties with the Middle East, particularly with the GCC. Its trade with the GCC in 2010 declined by 0.4% to $8.7B[4], which was still nearly double that of Canada. The impression of Canadian government officials formerly stationed in the region is that Australia has made it a formal policy commitment to bring senior government officials into the region and to set up regional trade offices throughout the region. It is suggested that **Canada, put simply, has a lot of room to grow in its trading relationship with the Middle East, and more specifically, the GCC[5].** Thus, much of Australia's success can be attributed to the concerted effort it has made to engage in the region, including commencing talks for an FTA with the GCC in 2007 that are now in their 4th round of negotiations[6].

POTENTIAL OF THE MIDDLE EAST MARKET

As outlined above, Canada has experienced solid growth in the region over the past decade, but is still falling short of capitalizing on the full potential of trade with the region. The Middle East accounts for an increasing percentage of the world's economic output, accounting for 5.13% in 2011, up from 4.3% in 2002[7]. GDP Growth rates in the region have consistently outperformed the more advanced economies, with an average GDP per Capita (PPP) OF 5.26% over the past decade compared to 3% in Advanced economies and 2.7% in the G7[8].

There are a number of reasons to believe that this type of growth in the Middle East will continue over the next two decades. First, rapid population growth and an increasingly well-educated and modern youth will contribute to an ever more favourable dependency ratio in the region. This will provide a strong labour force to support economic activity,

[3] Ciuriak, Dan and Shinji Kinjo (2005). "Trade Specialization in the Gravity Model of International Trade" in John M. Curtis and Dan Ciuriak (eds.), *Trade Policy Research 2005*, pp. 189-198

[4] Australia. Department of Foreign Affairs and Trade. Market Information and Research Section. *Australia's Trade with Africa and the Middle East*. Market Information and Research Section Department of Foreign Affairs and Trade, Nov. 2011.

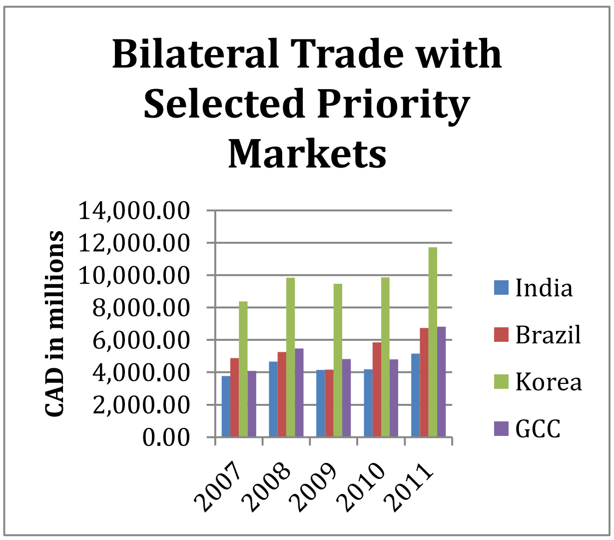
[5] Momani, Bessma, and Agata Antkiewicz. "Canada's Economic Interest in the Middle East." *CIGI Working Paper No. 26* (2007)

[6] DFAIT (2013) – Australia-Gulf Cooperation Council FTA - http://www.dfat.gov.au/fta/agccfta/

[7] Calculations are the authors' from IMF WEO data

[8] Ibid.

provided there is an infusion of investment. Secondly, there are a number of sectors that are ripe for expansion. The ICT market, valued at $81b in 2010, is expected to expand to $173b by 2015[9], while growth in Hospitality and Tourism sector will help close the employment gap, a key priority for governments in the region. Finally, liberalization of the banking sector in the Arab Middle East has made it one of the fastest growing industries in the world[10].



From a Canadian perspective, the potential of the market is multiplied due to comparative advantages in trade, which extend to almost all products with the exception of mineral products (GCC); chemicals (Egypt, Israel, Saudi Arabia and Qatar); textiles (Israel, Egypt, Oman and Bahrain); food (Israel and Egypt); precious metals and stones (Israel and Egypt); and arms and ammunition (Israel).[11] The combination of trade advantages and economic growth in the Middle East make it a potentially lucrative region to further Canadian economic interests.

THE GULF COOPERATION COUNCIL

With the opportunities for Canadian trade and investment in the Middle East continuing to expand in coming years, it has become even more pertinent that Canada establishes strong economic ties in the region. The Gulf Cooperation Council provides an ideal entry point as one of the wealthiest country groupings in the world and the hub for trading activity in the Middle East. Additionally, it holds significant political influence in the region, providing a stable investment climate in the near term. Deepening economic ties with the GCC will benefit Canadian business in numerous sectors and should be a priority of the current government.

Politically, the GCC continues to increase its influence over the region as a whole, taking advantage of the waning interest of the US, which is reeling from a long way in Iraq and a long list of domestic issues. Following the revolutions brought about with the Arab Spring, the GCC looked to incorporate Morocco and Jordan, the two other monarchies in the region, into join the council. While this was largely a gesture to solidify support for the political status quo, it will result in significant investments by the GCC into these countries to improve their economic

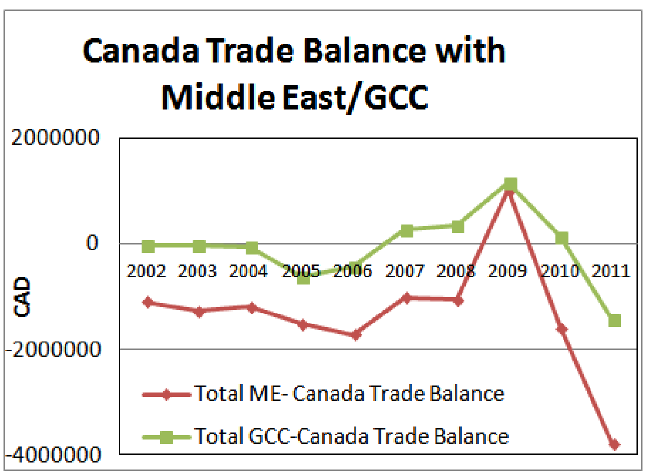
[9] Sabbagh, Karim, Tusa, David, Mourad, Mohamad, Goussous, Amr. 2010. Telecom in the Middle East The Competitive Mandate After the Downturn. Strategy & Company. Accessed 26 August 2012. Available http://www.strategyand.pwc.com /media/uploads/Telecom_in_the_Middle_East.pdf

[10] Momani, Bessma. "The Arab Spring Can Bring a Demographic Dividend."

[11] Momani & Antkiewicz, 2007

development, irrespective of the eventual inclusion. In the wake of the Arab Spring, the GCC saw the uprising as primarily a result of lack of economic opportunity. As a result, continued focus on reinvesting reserves to diversify their economies can be seen as a method to offset political and social unrest in their own countries.

Riding on the back of substantial oil revenues, **the GCC countries have experienced some of the fastest growth rates in the world and are expected to have over $3.5 trillion in Foreign Direct Investment by 2020.** In the coming years, opportunities for investment and development in the oil and gas sector will remain strong, but a commitment to drawing down reserves and reinvesting oil revenues into sustainable economic sectors has, and will continue to, open doors in numerous sectors that will be advantageous for Canada.



As outlined above, Canada has seen a substantial improvement in trade with the region in recent years, despite limited engagement by the government in the region. This is largely due to the growth in sectors that complement Canadian trade. GCG public projects and real estate development have led to a construction boom, which has provided opportunities for Canadian companies, particularly **engineering, architecture, design, and planning firms** that are well established in the region. Additionally, the need for **training and education** in order keep up with demand for human capital can be capitalized on as Canada is well respected in the region. This extends to the **healthcare industry**, both in services and medical equipment, which are almost exclusively supplied through imports. The lack of home-grown crops in the region provides ample opportunity for **agriculture** exports. Finally, **oil and gas** will continue to be a key area for growth in the region, with Canada well positioned to take advantage of its expertise in this sector.

These sectors highlight the potential of the GCC market and suggest a comprehensive Free Trade Agreement with the region would have significant positive impact on Canadian business and economic activity at home. The government has already outlined the GCC as a Strategy Priority Market through its GCS and should be focused on pursuing greater economic ties in coming years.

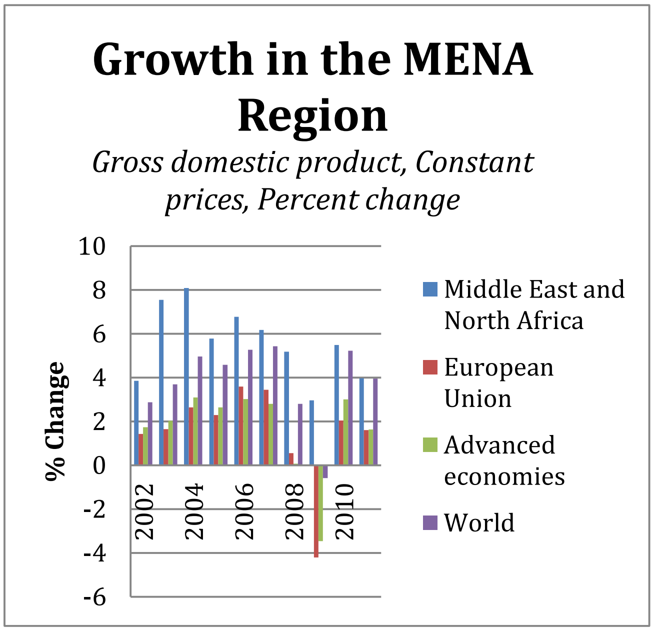
ALIGNING CANADIAN PRIORITIES

Canada has made tremendous progress on trade relations over the last few years, with the government following through on its promise to further Canadian economic interests abroad, as laid out in its Global Commerce Strategy in 2007. A number of Free Trade Agreements have been concluded, with a few still ongoing, as they have striven to support Canadian industry by improving global competitiveness. The Economic Action Plan for 2012 has called for the Global Commerce Strategy to be revisited, providing an opportunity to reassess Canadian trade and investment objectives to ensure they are making progress in strategic markets for the Canadian economy.

While the Canadian government has made the GCC one of its 13 priority markets for the GCS[12], it seems to have focused its resources in recent years on other markets. Since 2007, Canada has made inroads on bilateral agreements with multiple countries, concluding Free Trade Agreements with Colombia, Jordan, Panama, Peru, Honduras and the European Free Trade Associations while working to strengthen ties in the rapidly expanding markets of Brazil, India and China where it opened new trade offices[13]. Canada is also pursuing comprehensive bilateral agreements with Japan and the EU to further strengthen ties between these communities. Multilaterally, Canada has devoted resources to the Trans-Pacifc Partnership and worked to improve economic opportunity for Canadian companies through the Asia-Pacific Gateway. Additionally, Canada has concluded or brought into force 11 Foreign Investment and Protection Agreements, including ones with Bahrain and Kuwait[14].

While this aggressive pursuit of economic agreements should certainly be commended, Canadian officials seem to have largely ignored the potential of the Middle East market up until the past year. There has been progress recently, with high-level visits from Ministers Ed Fast and John Baird, including a trade mission to Saudi Arabia to resuscitate talks for the Joint Economic Commission, which will help expand and diversify trade between the countries with a focus on education, healthcare and infrastructure sectors[15]. While this recent progress is promising, Canada is still lagging far behind other developed economies in their pursuit of economic ties with the region. **Australia, Korea and the EU are already several rounds through their negotiations for an FTA with the GCC.** Canada would be apt to follow suit and begin exploring its own FTA with this lucrative trading bloc, which aligns with its pro-trade policies and strategic market priorities.

[12] DFAIT (2012). Gulf Cooperation Council - Global Commerce Strategy Priority Market http://www.international.gc.ca/commerce/strategy-strategie/r8.aspx
[13] Ibid.
[14] DFAIT (2012) Harper Government Launches Next Phase of Canada's Pro-Trade Plan for Jobs, Growth and Long-Term Prosperity. http://www.international.gc.ca/media_commerce/comm/news-communiques/2012/05/26a.aspx?lang=eng
For more information go to international.gc.ca
[15] DFAIT (2012). Harper Government Opening New Markets in Middle East and North Africa. http://www.international.gc.ca/media_commerce/comm/news-communiques/2012/10/07a.aspx?lang=eng


Growth in the MENA Region
Gross domestic product, Constant prices, Percent change
10
8
6
4
2
0
-2
-4
-6
% Change
2002
2004
2006
2008
2010
Middle East and North Africa
European Union
Advanced economies
World