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WORKING PAPER

International Trade

Canada's Economic Interests in the Middle East

Bessma Momani
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Working Paper No.26
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Abstract

This paper argues that there are significant potential benefits still to be had in promoting stronger Canada-Middle East economic relations, particularly with respect to the countries of the rapidly growing Gulf Cooperation Council (GCC). To enjoy these benefits, however, enhanced political engagement in the region is needed, as well as a commitment on the part of the Canadian government to forge stronger economic ties (formal and informal) with selected Middle Eastern countries. Canada has developed a number of formal links with the Middle East, most notably a free trade agreement with Israel, and a number of bilateral tax agreements, but there is room to secure further formal links to the region and to foster trade more generally. These formal and informal relationships, accompanied by enhanced strategic governmental contacts and more savvy efforts by Canadian businesses, would likely be rewarded by substantially higher levels of business activity, particularly with the Gulf States.

1. Canada-Middle East Trading Patterns: Room for Improvement

Canada-Middle East economic relations have clearly not been a top priority for Canada and are never going to be under any reasonable scenario. Still, Canadian business activity in the Middle East has produced very worthwhile benefits to Canada's economy and to our trading partners. With the Middle East representing roughly 1 per cent of Canada's imports and exports, should Canadian officials be investing time and strategic efforts to furthering economic ties with the region? We argue that indeed they should, as the Middle East carries the potential of being a significant economic partner.

While the Middle East might appear to be of marginal importance to Canada's economy, especially as compared to the United States, closer examination reveals that Canada's overall trade with the region is perhaps of greater importance than initial assumptions suggest. For example, Canada's exports to the Gulf Cooperation Council (GCC) are comparable to Canada's exports to India and greater than exports to Brazil or Russia. Specifically, the GCC ranks as our fifteenth export destination; in comparison, India ranks fourteenth, Brazil ranks eighteenth and Russia ranks twenty-first (see Table 3). Canada's business community and trade bureaucrats would be remiss to suggest that Brazil, Russia, or India were insignificant trading partners. Moreover, trade with the Middle East is growing at a steady, healthy rate. Accordingly, we suggest that the Middle East and the GCC specifically, have been overlooked by Canada's trade officials.

Over the past fifteen years, the Middle East has been of marginal interest to Canadian export and import trade and investment. Canadian export of goods to the region, approximately $3.1 billion, account for only 0.71 per cent of Canada's total exports (see Table 1). Canadian imports from the region, though double the size of exports (C$4.8 billion in 2006) are also minor. Imports from the Middle East surpassed 1 per cent of total Canadian imports in 2005 and now represent 1.21 per cent of total imports (Table 2).[1] The GCC – a customs

Table 1. Canada's exports to the Middle East, selected years, unit: C$ millions

	1995	1997	1999	2001	2003	2005	2006	Average Rank over 10 years
Bahrain	17.6	10.8	12.6	13.6	17.2	28.1	31.1	14
Egypt	153.4	185.7	188.2	221.5	232.0	314.3	411.8	5
Iran	430.5	728.2	540.4	496.7	235.1	274.3	309.0	2
Iraq	0.2	1.2	33.1	6.7	5.4	75.9	144.1	10
Isreal	237.4	252.1	298.2	351.3	246.3	431.2	445.7	4
Jordan	12.5	14.7	19.6	33.6	30.8	122.5	56.3	9
Kuwait	64.8	55.4	38.3	62.3	82.3	118.1	90.2	6
Lebanon	57.1	62.8	46.0	32.3	31.1	49.8	60.2	7
Oman	24.3	14.8	11.6	19.3	49.2	22.7	55.9	12
Qatar	11.5	16.3	11.2	26.0	36.7	85.7	104.9	8
Saudi Arabia	521.1	557.7	296.9	339.7	469.0	439.2	543.6	1
Syria	21.7	24.3	21.2	16.6	20.6	66.8	48.3	11
United Arab Emirates	200.9	260.4	181.1	208.8	343.0	587.7	787.3	3
Yemen	19.0	10.1	24.4	36.0	34.0	46.7	27.6	13
Subtotal	1,772.1	2,194.5	1,722.8	1,864.3	1,832.7	2,663.1	3,115.9	
Total Canadian Exports	262,266.6	298,072.0	355,420.3	404,085.0	381,071.4	436,225.9	439,500.4	
Share of Total Canadian Exports	0.68%	0.74%	0.48%	0.46%	0.48%	0.61%	0.71%	

Middle East: Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen. Source: International Trade Canada

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

Table 2. Canada's imports to the Middle East, selected years, unit: C$ millions

	1995	1997	1999	2001	2003	2005	2006	Average Rank over 10 years
Bahrain	1.47	2.39	5.10	11.82	11.24	7.61	101.95	10
Egypt	18.84	29.02	40.07	42.08	116.20	142.04	140.15	5
Iran	121.74	506.01	111.54	44.60	63.24	44.47	44.50	4
Iraq	0.07	132.51	163.62	874.06	1,126.30	1,206.43	1,667.88	2
Israel	240.84	314.77	442.69	622.27	620.17	811.26	872.63	3
Jordan	1.16	0.89	0.99	3.92	5.78	8.75	14.58	12
Kuwait	0.04	1.97	3.10	18.86	51.33	60.41	63.78	8
Lebanon	4.28	5.67	15.33	8.21	9.76	10.85	11.70	11
Oman	1.00	0.84	1.59	2.70	7.00	4.66	6.13	14
Qatar	0.51	37.84	6.11	14.33	7.67	46.14	52.17	9
Saudi Arabia	501.83	647.78	429.46	800.44	919.28	1,701.35	1,706.15	1
Syria	27.31	1.37	2.44	61.49	96.93	21.77	25.29	7
United Arab Emirates	5.99	13.65	29.01	72.19	30.22	66.27	93.93	6
Yemen	0.06	28.92	0.26	0.13	0.20	0.19	0.23	13
Subtotal	925.1	1,723.6	1,251.3	2,577.1	3,065.3	4,132.2	4,801.1	
Total Canadian Imports	225,552.9	272,946.3	320,408.7	343,110.5	336,141.3	380,809.6	396,442.9	
Share of Total Canadian Imports	0.41%	0.63%	0.39%	0.75%	0.91%	1.09%	1.21%	

Middle East: Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen. Source: International Trade Canada

union of six Persian Gulf oil-producing states in the process of creating a common currency – has been a particularly important trading partner. While two-way trade between the GCC and Canada declined significantly in the 1980s and 1990s, it has recently skyrocketed (see Graph 1). Saudi Arabia, Iraq and Israel have consistently been the most important import partners in the region. Main import products from these countries are oil and oil products, electrical machinery, precious stones and pharmaceuticals. On the export side, United Arab Emirates (UAE), Saudi Arabia, Iran and, recently,

Table 3. Canada's top exports partners in 2006

	Exports in 2006 (CN$ millions)	Rank in 2006	Share of Total Exports
United States	359,258	1	81.7%
United Kingdom	10,133	2	2.3%
Japan	9,416	3	2.1%
China	7,661	4	1.7%
Mexico	4,385	5	1.0%
India	1,677	14	0.4%
GCC	1,613	15	0.4%
Brazil	1,338	17	0.3%
Russia	870	20	0.2%
Total Canadian Exports	439,500		

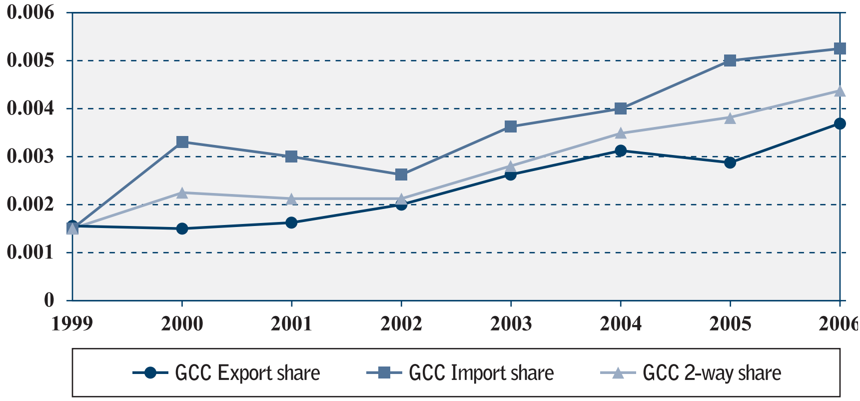
GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.
Source: International Trade Canada

Israel are the main markets for Canadian products, especially vehicles, aircraft products, machinery, cereals, metals, wood and paper.

While data on service trade is not readily available, some reports estimate it to be in the hundreds of millions of dollars (Veilleux, 2004: 21). Unofficial estimates, according to a number of interviews with former DFAIT officials, suggest that export of Canadian services to the region could be equivalent to that of exports of goods. EDC estimates, unofficially, that services could represent 40 per cent of overall trade in exports.

In recent years, Canada's exports to the Middle East have been growing rapidly. In 2005 alone, we witnessed a 25 per cent increase in exports to the region. Yearly growth rates of Canadian trade with the Middle East had been unstable prior to 2003; however, this rate of growth followed the general trend of Canadian exports overall over the past fifteen years. Remarkably, Canadian exports to the GCC have risen by 192 per cent since 1999 (see Graph 1); in comparison, Canadian

Graph 1. GCC Share of Canada's Trade: 1999-2006



GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.
Source: International Trade Canada

exports with China have risen by 188 per cent. EDC estimates that Canadian exports to the GCC, specifically, are expected to double by 2013. Similarly, Canadian imports from the Middle East have increased by more than 300 per cent since 1990, namely as a result of energy imports. Until 1999, Canada had enjoyed a consistent trade surplus with the Middle East, but subsequently Canada's trade deficit with the region has increased more than three-fold to $1.5 billion. Canada's growing trade deficit with the Middle East is mainly attributed to rising oil prices.

An examination of the impressive growth in imports and exports to the Middle East suggests that Canada should be interested in forging stronger ties to the region. Notwithstanding political instability in the Middle East, the revenues generated by oil and gas trade and the resulting accumulation of wealth and growing middle class, especially in the oil-rich economies of the GCC, open a number of opportunities for exporters. Countries in the Middle East are among the fastest growing economies in the world. Over the past ten years, Middle East GDP rates have grown an average of 4.2 per cent per annum. Some GCC countries have shown outstanding GDP growth rates, comparable to China and exceeding India and other emerging market economies (see comparative Table 4). Qatar's GDP, for example, has grown at 9.4 per cent per annum over the past 10 years (Van Ark and Metz, 2007: 10, Table 1). The GCC's foreign reserves have also been accumulating significantly over a number of years (currently at US$1.6 trillion, compared to China's US$1.1 trillion), mainly due to increases in oil revenues. These petrodollars need to be recycled or spent and Canada can be

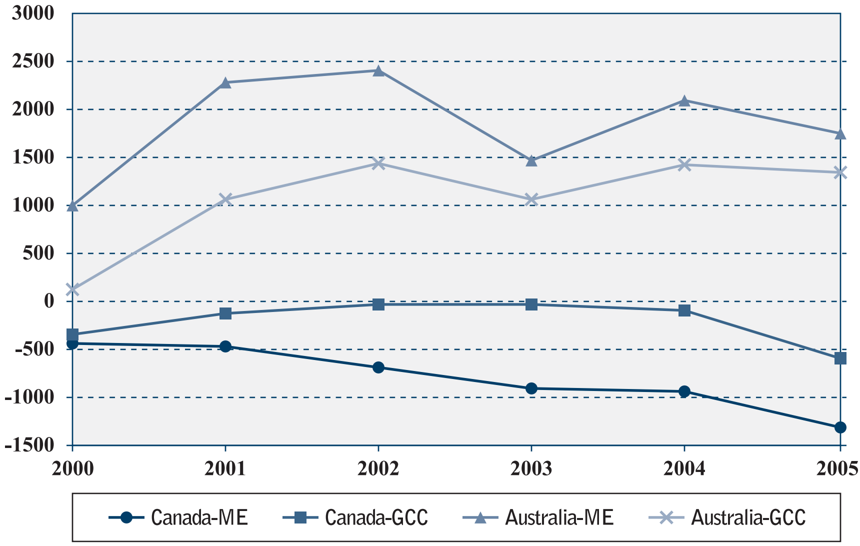
Table 4. GDP Growth Rates of the Middle East and the BRICs economies

	1995	1998	2001	2004	2005	Average 1995-2005
Gulf Cooperation Council						**4**
Bahrain	3.9	4.8	4.6	5.4	6.9	4.9
Kuwait	4.9	3.7	0.7	6.2	8.5	4.4
Oman	5.0	2.6	7.4	3.1	–	3.5
Qatar	–	–	–	20.8	6.1	9.4
Saudi Arabia	0.2	2.8	0.5	5.3	6.6	3.0
United Arab Emirates	7.9	4.3	8.0	9.7	8.5	6.8
Other Middle East						**4.3**
Iran	2.7	2.7	3.7	5.1	4.4	4.6
Iraq	–	34.8	-6.6	46.5	–	6.6
Jordan	6.2	3.0	5.3	8.4	7.3	4.8
Lebanon	6.5	3.0	4.5	6.3	1.0	3.4
Syria	5.8	6.3	5.2	3.9	5.1	3.4
Yemen	11.6	6.5	4.6	2.5	2.6	5.1
Egypt	4.5	4.0	3.5	4.2	4.9	4.5
Israel	6.7	3.7	-0.3	4.4	5.2	3.6
India	7.6	6.0	5.2	8.3	9.2	6.5
China	10.9	7.8	8.3	10.1	10.2	9.3
Brazil	4.2	0.1	1.3	4.9	2.3	2.4
Russia	-4.1	-5.3	5.1	7.1	6.4	3.2

Note: Aggregates for Gulf Cooperation Council and Other Middle East quoted in Van Ark and Metz, 2007, Table 1, p.2. Source: World Development Indicators Online, World Bank considered a safe destination for Gulf investments. It is important to highlight that the Middle East, and especially the GCC as the main economic force in the wider region, has demonstrated that it is indeed an important driver of the global economy. The Middle East's GDP growth rate is double that of the OECD countries and significantly higher than the world average (5.4, 2.5 and 3.2 per cent respectively in 2006) (World Bank, 2006: 4).

Canada certainly has a trading presence in the Middle East and most notably in the GCC. However, we argue that Canada could vastly improve its economic relationship with the region. To illustrate this point we compare Canada's trade performance with the GCC to other industrialized countries. Canada's exports to the GCC average only 11 per cent of those of other members of the Organisation for Economic Co-operation and Development (OECD). In other words, for every dollar exported to the GCC by France, Germany or Italy for example, Canada exports only 11 cents. In comparison, Canada captures nearly half (46 per cent) of the average OECD member's trade with China and India (CABC, 2005: 1). Thus, while Canada is a strong exporter to China and India, the GCC market is being overlooked.

Another indicative measure of Canadian trade potential in the Middle East is to examine Australia's trade activity in the region, as Australia has a similar economy to that of Canada (Ciuriak and Kinjo, 2005). By way of example, both countries rank similarly in net exports in most product categories, with the exception of transport equipment and wood products where Canada is one of the top five exporters and Australia is a large importer of both (ITC, 2007). Canada also has a clear advantage over Australia in terms of product diversification in fresh and processed food and chemicals (ITC, 2007). However, Graph 2. Canada and Australia Trade Balance with the Middle East (ME) and GCC, 2000-05 (US$ millions)



GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.
Source: International Trade Canada

despite the similarities in export performance and competitiveness, Australia has been consistently enjoying a trade surplus with the Middle East, whereas Canada's trade deficit with the region is increasing (see Graph 2). Australia is negotiating a free trade agreement with the UAE and has been in free trade discussions with the GCC, for example. Australia appears to have put more effort into fostering strong trade ties with the Middle East, particularly with the GCC. 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. The payoff has been extraordinary. In the past five years, Australia has increased its exports to the GCC by over

Table 5. Australia's trade with the Middle East, 2000-2005, US$ millions

	2000	2001	2002	2003	2004	2005
Import	2,197	1,701	1,460	1,872	2,256	2,360
Export	3,221	3,986	3,825	3,333	4,375	4,109
Trade Balance	1,024	2,285	2,365	1,460	2,119	1,749

Middle East: Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen. Source: United Nations Commodity Trade Statistics Database (COMTRADE)

500 per cent (Lingenfelter et al., 2005). In absolute terms, Australian exports to the Middle East as a whole are on almost double that of Canadian exports in recent years (see Tables 1 and 5). 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.

Where does Canada have complementarity in trade of goods with the Middle East? What products can Canada provide the Middle East that are needed throughout the region? Based on calculations of the Trade Specialization Index, we find that Canada has a comparative advantage in 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).[2] It is no surprise then that the sectoral mix of Canadian-Middle East trade is tilted in favour of exported machinery, wood, agriculture, aerospace and automobile

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[2] Based on Statistics Canada data, Trade Specialization Index is calculated (by sector) as a ratio of net exports (exports-imports) to total trade (exports+imports). TSI ranges from -1 when there are no exports which reveals comparative disadvantage, to +1 when there are no imports which reveals comparative advantage.

products, and in favour of imported natural resources and textiles (see Tables 6 and 7). Canada has complementarity of trade with the Middle East, but more importantly, it is argued in this paper that the potential for growth in noted sectors is also an important source of Canadian economic growth.

To begin, it is important to note that recent Canadian economic growth is increasingly generated by new sectors. In the late-1990s, Canada's economy was dominated by sectors such as high-tech and auto manufacturing, and Information

Table 6. Sectoral breakdown of Canada's exports to the Middle East (selected countries)

	Aerospace	Communications & Technology	Biotech/ Pharmaceuticals	Natural Resource	Agriculture	Heavy Machinery (manufacturing)
Egypt	×	×		×	×	×
Israel	×	×				×
Jordan	×		×		×	×
Lebanon		×	×		×	×
Syria		×		×	×	×
Saudi Arabia	×		×		×	
UAE	×			×	×	×
Iran					×	
Kuwait					×	×

	Construction	Wood/Paper Products	Energy	Textiles	Tourism	Professional Services	Automobile
Egypt		×				×	
Israel		×					
Jordan		×	×				×
Lebanon		×			×		×
Syria		×	×	×			
Saudi Arabia		×	×				×
UAE			×				×
Iran		×					
Kuwait	×	×					×

Sources: DFAIT, http://www.dfait-maeci.gc.ca/middle_east/countries-en.asp
The Rendez Vous - Newsletter (Jan/Feb 2006) Canadian Trade Commissioner Service,
DFAIT and Country Economic Profiles, http://www.infoexport.gc.ca/

Table 7. Sectoral breakdown of Canada's imports from the Middle East (selected countries)

	Communications	Biotech/ Pharmaceuticals	Natural Resource	Agriculture	Heavy Machinery (manufacturing)	Energy	Textiles	Automobile
Egypt			×	×		×	×	
Israel	×	×	×			×		
Jordan			×	×		×	×	×
Lebanon			×	×	×			
Syria			×	×			×	
Saudi Arabia		×	×					
UAE		×	×				×	
Iran			×	×			×	
Kuwait			×				×	

Sources: DFAIT, http://www.dfait-maeci.gc.ca/middle_east/countries-en.asp
The Rendez Vous - Newsletter (Jan/Feb 2006) Canadian Trade Commissioner Service, DFAIT and Country Economic Profiles, http://www.infoexport.gc.ca/

Communication Technologies services. Since the beginning of the decade, however, these industries have slowed while construction, resources, health, education, and related services are currently driving the Canadian economy (Cross, 2006: 3.4). By way of example, yearly growth in construction in 2006 was 7.2 per cent and oil and gas extraction 3.4 per cent, while manufacturing and primary industries (agriculture, forestry, fishing and hunting) experienced negative growth (Statistics Canada, various tables). An important factor in weak performance of the manufacturing sector has been increased competition from emerging countries (for example, China and India). This is especially visible in textiles, clothing, electrical equipment, leather products and furniture (Industry Canada, 2006: 15). On the other hand, computer and electronic products, wood, chemicals and transportation equipment are currently the most successful manufacturing areas in Canada.

Canada's Department of International Trade and Foreign Affairs (DFAIT) highlighted key market access priorities with countries in the Middle East. We have taken these specified sectors and correlated them to sectors where opportunities for growth and positive ripple-effect on the Canadian economy have been suggested by other economic analyses. According to DFAIT, opportunities in the Middle East have been identified in wood, pulp and paper sectors (Egypt and Syria), equipment and veterinary health products, transportation equipment and machinery, and aircrafts (Jordan), water (Jordan), energy (Syria), IT and communications (Egypt, Syria), automobiles (Iran), and petrochemical (Egypt) industries. In high-tech products (computer, communications equipment), firms have already started diversifying their exports away from the declining US and UK markets to more prospective emerging markets (EDC, 2007: 61-2). Given the declining exports of Canadian forestry products to the US, expansion of trade with the Middle East is an option worth considering. In primary industries, despite overall negative growth, crop production drives economic activity due to the opening of new export markets for wheat and canola products (EDC, 2007: 35). Canada sees trade opportunities in, and seeks further liberalization of bilateral trade in, canola oil (Israel, Iran and Egypt), processed food (Jordan and Iran), dairy products (Jordan), live cattle (Iran) and beef and veal (UAE).

In services, the potential for growth seems to be located in professional, scientific and technical services (currently growing at approx. 2.8 per cent annually) and architectural and engineering services (3.3 per cent) (Statistics Canada, various tables). Entertainment, recreation and accommodation services have also recently experienced accelerated growth (between 3-5 per cent annually). The overall export of Canadian services is not growing considerably at the moment; however, this is mainly a result of the strong Canadian dollar and declining demand in the US. EDC (2007: 15) estimates that service exports to emerging markets will grow faster than to the US (3-4 and 1 per cent respectively).[3] In services, potential for expansion has been noticed in education (Egypt, Saudi Arabia), consulting, training, software, financial services (Syria), tourist services (UAE), infrastructure, construction and engineering (Bahrain, Qatar, Saudi Arabia, UAE), and health care (Saudi Arabia) (DFAIT, 2005: 136-51; CABC, 2005).

The EDC has also highlighted oil and gas, infrastructure and environment as key sectors for strong Canadian investment and export potential. In this context, it seems that the market access priorities in the Middle East as identified by DFAIT follow domestic developments in various sectors of the economy. In addition, the fact that the oil-rich economies of the GCC are working toward higher economic diversification, using the oil revenues to increase spending on infrastructure, construction, other non-oil industries, real estate, tourism and finance is a clear sign that Canada needs to look to the region for potential commercial opportunities.

While Canadian energy companies have traditionally established their presence in the Middle East and include, to name a few, Nexen, Petro Canada, and BC Gas, companies from other sectors of the economy are becoming increasingly interested in the region. In aerospace, CAE, a Canadian manufacturer of flight simulators has invested in a large flight training centre in Dubai; in infrastructure, SNC-Lavalin, Bombardier, and Gratner Lee are also well represented in the region. Canso and Cansult have provided engineering and project management expertise throughout the UAE on

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[3] For more information on Canada's export potential in various sectors see EDC (2007).

multimillion dollar building initiatives. Canada is also increasingly active in providing educational services, such as the College of the North Atlantic in Qatar, and health training such as Interhealth and training of Saudi medical doctors in Canada. A number of Canadian retailers also figure prominently in the GCC, including Aldo, CinnZeo, La Senza, La Vie en Rose and Second Cup. The GCC stands out in the Middle East as a place where Canadian businesses can grow at remarkable rates.

2. Making the Case for Enhancing Canada-Middle East Economic Ties

To begin, it is important to highlight that Canada has a positive image in the Middle East. The importance of image cannot be overestimated. Canadian businesses are well-liked by Middle Easterners, in part owing to the perceived 'impartiality' of Canadian foreign policy in the region, and in part owing to the likeability of Canadians. Former Parliamentary Secretary to the Minister of International Trade Mark Eyking has even suggested that Canada gained added respect in 2004 for the government's handling of the Iraq crisis (Buchanan, 2005). Peter Ventin, Vice-President of Cansult Limited – one of the most profitable Canadian engineering firms working in the GCC – adds that: "…we've [Canadians] got an excellent reputation… Doors open to us because we're a Canadian firm. That may not be the case if you're an American firm or a British firm, especially in light of the recent political environment in that part of the world" (Ventin, 2005). During the Middle East's unofficial consumer boycott of US and UK goods in the region, a former Canadian trade representative noted that Canada was an unintended benefactor, with many Arab consumers switching to Canadian-made goods.[4] Moreover, Canada is well-liked in the region because we are seen as having 'no preset agenda' and being a country of diversity and compromise and are therefore considered good business partners.[5] Yet, as the Canada-Arab Business Council (CABC) president noted, there is a longstanding misperception that Canadian businesses do not perform well in the region.

Canada's business community has often assumed that the US and UK businesses perform better in the Middle East because of their stronger political and historical ties to the region.[6] Canadian businesses are often surprised that the Middle East has a high income per capita and generally have a misperception that the region is unfriendly to foreign business.[7] The CABC president, however, has commented that Gulf businesses noted their preference in dealing with Canadian companies, particularly as opposed to US ones. Canada in some respects has an edge over the United States.

Since 2005, the CABC has brought Canada's potential and growing level of trade with the GCC to the Canadian government's attention in a number of presentations to the Parliamentary Committee on International Trade. The Canadian government has also taken increased notice of the GCC market, in part owing to the attention raised by the CABC presentations.[8] In 2006, the Canadian government created a special committee to investigate potential opportunities for

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[4] Based on interview with Richard Seguin of Agriculture Canada and formerly of Foreign Affairs and Trade.
[5] Based on interview with Richard Seguin.
[6] Based on interview with Richard Mann, president of the Canada-Arab Business Council.
[7] Based on interview with Richard Seguin.
[8] Based on interview with Richard Mann.

enhancing Canada-GCC linkages. The most significant indication of this heightened interest came when Canada's Trade Minister David Emerson noted in his 2007 speech to the Canada-Arab Business Council that negotiations on a free trade agreement with the GCC might be launched. Emerson stated that "bilateral trade agreements in key markets – markets like the Middle East and North Africa – will become a major priority for us in the near term."

There have been some synergies to push trade further with the Middle. In 2003, then-Prime Minister Paul Martin addressed the CABC and stated: "Unfortunately, and I speak to government, I speak to the business community, and I speak to the ambassadors who are here, the simple fact of the matter is we have done little more than scratch the surface of the opportunities that are open to us in the Arab world" (Martin, 2005). Trade Minister David Emerson echoed similar remarks in his 2007 address to the CABC:

> …there's an awful lot of room for improvement; and just the few conversations I had coming and meeting people [at the CABC annual meeting], I heard just enormous enthusiasm coming from people of just the highest calibre realizing that there is a window of opportunity here to deal with the Middle East in a way that would bring tremendous benefits to Canada and the region over the next couple of years. But we're not doing enough and when you look at two-way investment, it's really not strong enough. (Emerson 2007)

While commentators may have noted Canada's changed policy with respect to the Middle East under the government of Stephen Harper, particularly with respect to Canada's United Nations voting record on issues concerning the Middle East, the CABC believes that this has not filtered negatively to the business community. While Middle Eastern diplomats have complained about Canada’s UN voting during official visits intended to promote business ties with Canada, several individuals in government noted in personal interviews that this was not nearly as damaging to our reputation as critics have argued. Canada’s ambassador to Saudi Arabia, Roderick Bell, reflected on this by saying:

> Some say we’re coasting on our reputation from the past. I personally think there is merit in that argument, and that perhaps in recent years we don’t deserve the reputation that we garnered in the past. Nonetheless, we still have it, more particularly since the events of 9/11 when the Canadian position on Middle East issues, and more particularly on Iraq, are extremely valued. This is not just at the government level… we really do have a special place in these Arab countries, and we don’t exploit it as much as we should. (Bell, 2005)

Short of a comprehensive survey of Middle East business and government on perceptions of Canada, we cannot measure the effect of changes to Canada’s Middle East Policy under Prime Minister Harper. Nevertheless, there appears to be some goodwill banked in the Middle East that continues to serve Canadian businesses positively in the region. Moreover, regardless of which party is in government, both have expressed a strong will to promote Canadian business in, and exports to, the Middle East. The question becomes, if there is clear quantitative economic evidence supporting increased Canada-Middle East trade and the Middle East is eager for Canadian business, why has Canada underestimated trade with the Middle East, and specifically, the GCC?

3. Challenges to Enhancing Canadian Business Interests in the Middle East

Based on fifteen personal interviews with interested business associations, stakeholders, parliamentarians, and past and present government bureaucrats, we synthesize a number of factors that present challenges to enhancing business in the region. First, as the United States monopolizes our official and business interests, there is a declining interest for much else. Why are Canadian trade officials not pursuing trade in regions like the Middle East? A number of interviewees noted that while there is interest in International Trade and Export Development Canada to exploit new markets, the emphasis is more often placed on the better-known emerging market economies called the 'BRICs': Brazil, Russia, India and China. In a sense, Canada has "blinders on" when pursuing trade opportunities beyond the BRICs. Chairman and CEO of Nexen Inc., Dwain Lingenfelter, adds that "…it's much more difficult to get minister (sic) to lead trade missions to the middle east than I think it is to India or Brazil of (sic) China. At least the record would show that there are many more ministers going to those countries than going to the Middle East. And so I think this is just one part of it, but I think we all have to do our part" (Lingenfelter et al., 2005). This despite the EDCs observation, and one similarly echoed in many interviews, that it is relatively easier to conduct business in the Gulf than in India or China.

Second, part of the difficulty in selling the idea that the Middle East, and the GCC specifically, is worthy of business and bureaucratic interest is that the Middle East and GCC populations are relatively small.[9] Business and the bureaucracy are more impressed by and interested in exporting to larger consumer markets, such as India and China. It is simply more impressive to boast that Canada has secured stronger ties with a market of more than 1 billion than to boast ties with a Middle East market of 250 million or a GCC market of 35 million.

Third, there are strong perceived political risks associated with conducting business in the region. Undoubtedly, business has been dissuaded by the news headlines about Iraq, Lebanon, and Israel/Palestine. The CABC has painstakingly reminded Canada's business communities that apart from several states, the region is relatively safe. Moreover, the region is relatively transparent and, compared to other emerging market economies, it is relatively 'easy to do business'. That said, some countries in the region make it difficult for businesses to travel and visit the region. Saudi Arabia and Libya, in particular, have cumbersome visa application processes that make it a challenge for Canadian businesses to travel to their countries.

Fourth, in conducting business in the GCC, there are cultural nuances that need to be respected. Gulf states can be highly image conscious. There is a strong involvement of royal family members in key portfolios in Gulf governments. It is important for Canada to bring senior ministers to the Gulf states, where their counterparts will often be members of the royal family (CABC, 2005).[10] Canada's ambassador to Saudi Arabia, Roderick Bell, emphasized the importance of this issue in promoting economic ties, saying that: "…any culture values

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[9] Based on interview with Richard Mann.
[10] Based on interview with Richard Mann.

face-to-face contact, but believe me, Arab culture puts a premium on that. We need the Prime Minister there. We need Ministers there. We need MPs there…" (Bell, 2005). Canadian businesses involved in the region have echoed this theme. Paul Mariamo, Senior Vice President of SNC-Lavalin Group Inc., stated, "We would love to see our Prime Minister or Minister there [the GCC] often, promoting our product. We can fight companies, but we cannot fight governments. We need you to fight the governments for us; we cannot do it ourselves" (Mariamo, 2007). In other words, Canadian businesses need the political support of Canadian government officials to help promote the optics of strong bilateral economic relationships. Sending bureaucrats in lieu of ministers to important trade meetings in the GCC does not help trade negotiations with the region. This is something that the European Union has learned in its trade negotiations with the GCC (Saleh, 1999).

Canadian businesses operating in the Gulf have asked for stronger involvement of Canadian Members of Parliament (MPs), but it seems difficult for Canadian politicians to travel without risking the potential criticism of the media. As Nexen's Dwain Lingenfelter (2007) commented, "no one wants to be on what might be determined as a political junket in the media. No one wants to be away when the House has a vote, but believe me, that's not helping us in the international work that we work in." Furthermore, in the current context of a Canadian minority government, it was noted that it has been difficult to arrange ministerial level trade negotiations in the Middle East because of the possible call for an election.[11] Canadian businesses operating in the Middle East have repeatedly stressed the need for stronger visibility of Canadian MPs and government

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[11] Based on interview with Richard Mann.

members to help augment the stature of Canada's business community in the region (SCIT, 2007). The Standing Committee on International Trade's trade mission to the region in June 2007 was a promising step in the right direction.

Fifth, Canadian embassies need to be better represented in the Middle East. Canada's embassies serve a vital function in promoting bilateral economic relations. While Canada has embassies in many Middle East countries, there are a number of important posts remaining to fill. Qatar, Oman, Yemen, Bahrain and Iraq are still waiting for a permanent Canadian mission. A number of these countries have actively sought a Canadian embassy in their countries to help foster stronger bilateral trade (CABC, 2005). According to Lingenfelter (2007), DFAIT is allocated a fixed budget to manage Canadian embassies and opening an embassy in a new post is rationalized only when there is a closing of another post. While this is not effective government policy in anyway, some have argued that the government has failed to view embassies as investments in Canadian business and economic growth. Instead, the government has rationalized embassies as a zero-sum cost (Lingenfelter, 2007). A number of interviewees noted with frustration the closing of Canadian offices in Osaka and Fukuoka, Japan; Milan, Italy; and St. Petersburg, Russia, which are all key business markets abroad. The overarching problem, however, is the lack of DFAIT capacity in fulfilling competing and rising demands. Moreover, Canadian embassies in the Middle East are overwhelmed with offering visa and immigration services, making trade and investment promotion a relatively lower priority.

Finally, airline links between Canada and the Middle East, particularly the GCC, need to be significantly improved. Businesses that need to travel to the Gulf, for example, must stop in Europe, adding significant costs in time and money to business travel. For a number of years, Canada had only three flights to the UAE via Brussels per week; in contrast, Australia had over 60 flights a week to the country (Hutton, 2007). Australian businesses also transit through the UAE to get to Europe, making business contact convenient even if incidental to Australian-European travel. This is an added advantage to Australian businesses. Providing Middle East and Gulf airlines with enhanced access to Canadian airports via landing rights, called open skies agreements, is a policy decision requiring the attention of the highest levels of government (Hutton, 2007). Canadian businesses may likely start pressuring the Canadian government, as had been the case with businesses dealing with China, to increase air services to the Middle East as trade ties continue to strengthen.

Recently, the UAE's Etihad airlines started offering three direct flights to the region via Toronto and Emirates airlines is currently in negotiations to do the same. The Canadian government, however, has tried to protect Air Canada from Gulf competitors who can offer travellers, specifically those going to the Indian subcontinent, an alternate air route. Needless to say, however, that business travel made cumbersome and difficult will deter bilateral trade and investment relations and an integrated approach that considers industry, economic, and safety concerns needs to be considered.

4. Steps Forward in Strengthening Economic Ties

In April 2007, a Maclean's cover article entitled "Land of the timid…home of the careful" essentially argued that Canadian businesses have an aversion to international branding and risk (Mandel-Campbell, 2007). This is far from the truth for those Canadian companies trying to expand business opportunities in the Middle East. We argue that there are indeed real challenges to enhancing trade with the Middle East, particularly when the business community and public at large have a misconstrued image of the region. However, we also argue that Canadian government needs to enhance its political commitments to pursuing closer ties with the Middle East by initiating an integrated consideration and study of the issues that inhibit stronger economic ties.

Taking stock of Canada's formal arrangements and links with the Middle East reveals how our institutional links with the region remain underdeveloped. Canada has only four free trade agreements (FTA) in the world and only one formal free trade agreement with a country in the region, Israel. Under the Mulroney government in the early 1990s, Israel had actively pursued closer economic ties with Canada and raised the idea of a bilateral free trade agreement. However, the Mulroney government was preoccupied with the Canada-US free trade agreement and did not want to pursue yet another politically contentious bilateral FTA. Soon after former Prime Minister Jean Chrétien took office, he met with Israeli Prime Minister Yitzhak Rabin in 1994 and raised the issue.

The main motivations for the Canada-Israel Free Trade Agreement (CIFTA) were to strengthen economic relations and create a framework for promoting investment and cooperation (DFAIT, 1996).[12] Despite Prime Minister Chrétien's support for the idea, DFAIT political officers remained wary, whereas trade officials in the same department (Spector, 1996: A15) argued that Canadian firms needed an FTA with Israel to level the playing field with EU and American competitors who enjoyed tariff-free access (the EU in 1975, and the US in 1985, both had concluded FTAs with Israel) (see Moroz, 1996).

In contrast, Canadian producers and industries, such as telecommunications, were paying 10 to 25 per cent tariffs to export into Israel. This discrepancy presented a considerable disadvantage to Canadian exporters. Pursuing additional FTAs in the region could help level the playing field abroad.

Analysts have recommended that DFAIT's attention would be better spent furthering multilateral trade agreements, instead of bilateral FTAs (Goldfarb, 2005). That said, multilateral trade talks, such as the Doha talks of the World Trade Organization, are not accelerating fast enough to meet the needs of the Canadian business community. Many countries, including our NAFTA partners, are ahead of the game in signing FTAs with important trading partners. Canada has tended to approach bilateral FTAs with caution, ensuring that agreements are comprehensive and bullet-proof. In any case, the stretched capacity of DFAIT means that Canada cannot keep up with its competitors in trade negotiations.

In February 2007, the Harper government announced that it would make bilateral FTAs an important government policy by committing greater financial resources to trade negotiations. However, DFAIT cannot train individuals in complex trade negotiation fast enough to meet the demands of the business

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[12] The content of the CIFTA is focused on goods trade and the related elimination of tariffs. It also contains provisions on Rules of Origin, national treatment, and customs procedures. No commitments on trade in services, intellectual property or investment were included in the agreement. Tariffs on most industrial products were removed when the CIFTA came into force. The few remaining tariffs were phased out over the following three years (DFAIT, 1996: Annex 2.1.1.). The provisions of the CIFTA were expanded in 2003 to include approximately 80 per cent of two-way trade in agricultural and food products (AAFC, 2003). The CIFTA also contains provisions on the establishment of the Canada-Israel Trade Commission, a binding dispute settlement system that includes a panel of experts as well as an enforcement mechanism.

community. International Trade has recently (June 2007) concluded the FTA with the European Free Trade Association (EFTA) countries and is currently in negotiations with South Korea, Singapore, and four Central American states. Trade negotiations with Peru, Columbia, and CARICOM are also on the horizon. Moreover, DFAIT has argued that an agreement with Japan would be worthwhile as well. Simply put, the possibility of an advanced trade agreement being negotiated with the GCC anytime soon is unlikely. DFAIT has not yet begun a comprehensive exploration process with the GCC.

We do not recommend further bilateral FTAs with most countries in the wider Middle East, but do feel that the GCC is a region worthy of Canadian attention. The US has been pursuing multiple FTAs throughout the Middle East with small, relatively less important economies in hopes of achieving peace in the region (Momani, 2007). This is not an approach we would suggest Canada replicate. While the DFAIT has always maintained that the agreement served economic interests (DFAIT, 1996: Article 1.2), Canada's motivations for negotiating the CIFTA were also political and geopolitical. The same could be said for the potential FTA negotiations with Jordan announced recently by Stephen Harper (DFAIT, 2007). At the Standing Senate Committee on Foreign Affairs on the eve of the CIFTA signing, Senator Pierre De Bané expressed scepticism that the CIFTA was motivated on economic grounds:

> We all know the size of the trade between our country and Israel, and if we were interested in having a level playing field, I can give you a lot of other markets where we do not have a level playing field because of their agreements with the European Union. The reason here – everybody knows. As a Canadian, I applauded when that agreement in

> principle was announced, because it was our gift to that region – we wanted to encourage them in the peace process. This is it. You have your own point of view about what kind of spin to give to this, but let me tell you that it is essentially a political gesture on the part of Canada, and you cannot, with all due respect, hide it with an economic rationale. (De Bané, 1996)

Nevertheless, since the implementation of CIFTA, bilateral trade between Canada and Israel has more than doubled, from $567 million in 1997 to an all-time high of over $1.2 billion in 2005 (DFAIT, 1999a; 2006: 27).[13] Free trade, as per CIFTA and many other American bilateral FTAs with Middle East countries, is presumed to promote peace in the region and thereby to help to achieve geopolitical ends, rather than simply economic ones (Momani, 2007).

Regardless of US motivations to sign bilateral FTAs with Middle East partners, Canada clearly reacts to US FTAs with enhanced interest. Canadian businesses worry that US FTAs will shut out Canadian business. The US-Moroccan FTA, for example, has generated worries in Canada's business community, particularly wheat exporters. There is indeed some rationale in having a similar trade web within NAFTA. Similarly, once the GCC concludes its near completed FTA with the EU, Canadian businesses may put pressure on the Canadian government to level the playing field. The fact remains, however, that Canadian trade negotiators are stretched to the limit. The unprecedented amount of bilateral free trade negotiations that Canada has recently undertaken indicates that

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[13] In comparison, Canada's total trade increased by approx. 60 per cent over the same period.

the GCC cannot possibly be on the near horizon of the Government's trade agenda. Moreover, due to DFAIT's limited resources and capabilities in negotiating FTAs, there is a greater need for Canada to pursue a commercial rationale as opposed to a geopolitical one.

If Canadian trade officials are stretched to the limit what can be done in the short term? For now, Canadian trade officials can negotiate additional investment promotion and protection agreements (FIPAs). It has been suggested that an FTA, for example, can require 30 highly trained DFAIT employees to negotiate and manage at any given time; whereas, a FIPA requires only six DFAIT employees with some cooperation from the Department of Finance. Canada has signed two investment promotion and protection agreements (FIPAs) with Lebanon and Egypt in 1997 (in force 1999) and 1996 (in force 1997), respectively. The agreements contain provisions on the treatment of established investment, expropriation, transfer of funds and performance requirements, taxation measures and dispute settlement, among others. FIPA negotiations with Jordan have just been completed (DFAIT, 2007) and the groundwork has been laid for talks with Kuwait.

Double-taxation agreements can also help to promote stronger Canada-Middle East business ties without committing a large amount of DFAIT resources. Cooperation on taxation agreements (also known as agreements on the avoidance of double-taxation) have been signed with Israel, Jordan, Kuwait, Lebanon, Oman and the United Arab Emirates. An older agreement with Egypt (1983) is currently being renegotiated and talks with Iran are ongoing. In addition to formal government-to-government agreements, Canadian agencies have also expressed interest in deepening links to countries in the Middle East. Export Development Canada (EDC), for example, will be opening a regional office in Abu Dhabi in January 2008. This will be one of eleven regional offices placed in emerging market economies throughout the world. Strengthening EDC office resources in the Middle East would also be a useful policy.

5. Conclusion

Canada-Middle East economic relations are an under appreciated dimension of Canadian trade and foreign policy. Beyond the CIFTA, Canada has no other FTA and only a small number of formal economic agreements with the region; a shortcoming that needs to be addressed. An FTA with the GCC would be beneficial and a welcomed signal for Canadian foreign investment, but the limited capacity in DFAIT makes this proposal less likely in the short-term. The challenges noted in advancing trade in the Middle East, and most importantly in the GCC, however, are political ones. Indeed, there is a real need for enhanced political commitment on the part of the Canadian government to help enhance Canadian business activity in the Middle East. Expanding embassy services to include more trade commissioners would similarly be valuable in many more Middle East postings. Finally, the clearest finding of our study suggests a greater need for personal involvement of senior government members in our trade policy with the Middle East. The Prime Minister, Members of Parliament, and even Senators could be useful in opening many doors to lucrative business opportunities that will effectively help Canada’s economy grow and prosper, and improve relations between Canada and the Middle East generally.

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