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Re-Energizing Canada's International Trade

Strategies for Post-Recession Success

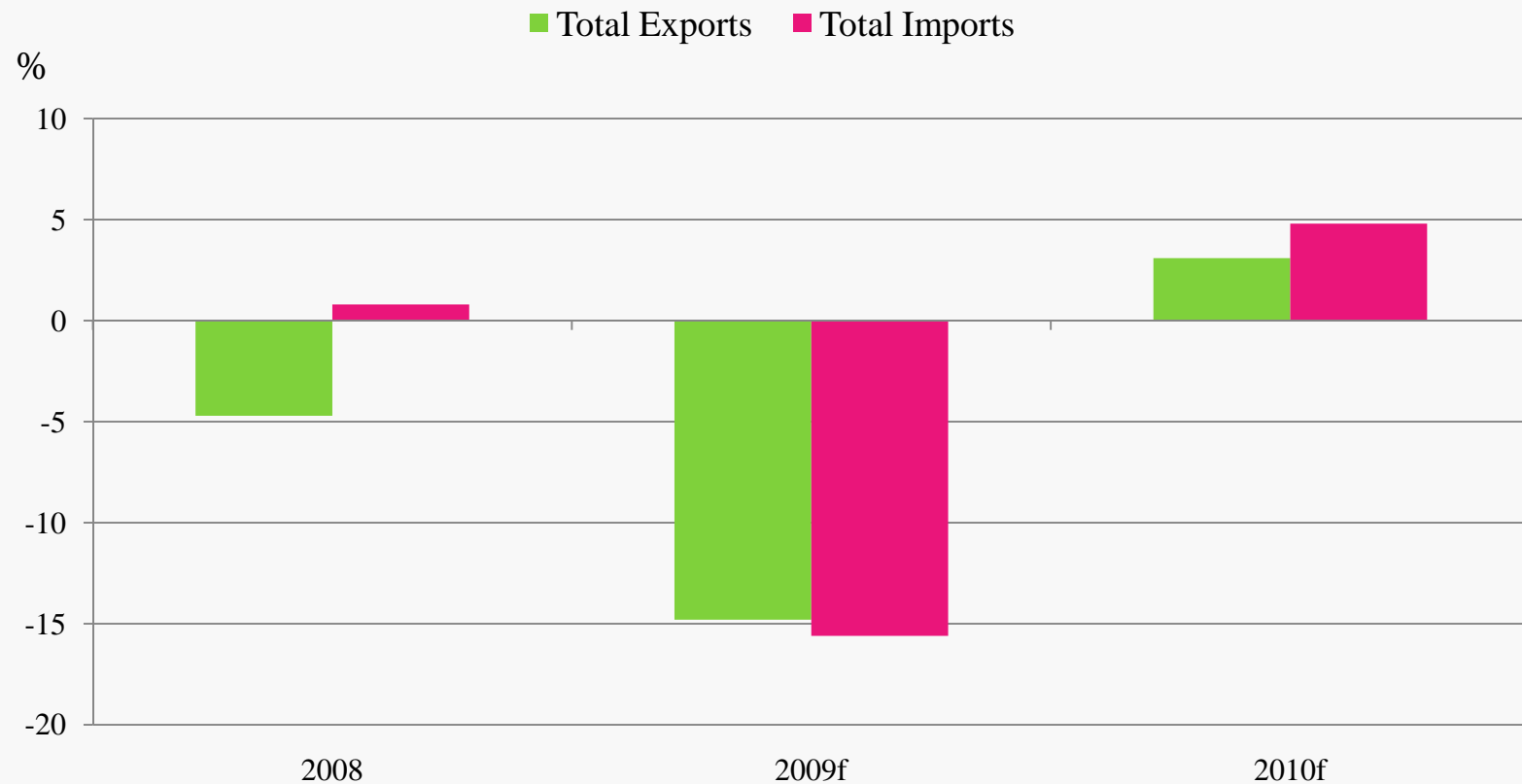
CanCompete

Competitiveness for Sustainable Prosperity

Anne Park Shannon

February 5, 2010

Devastating Impact on Trade in 2009



Sources: Statistics Canada and The Conference Board of Canada.



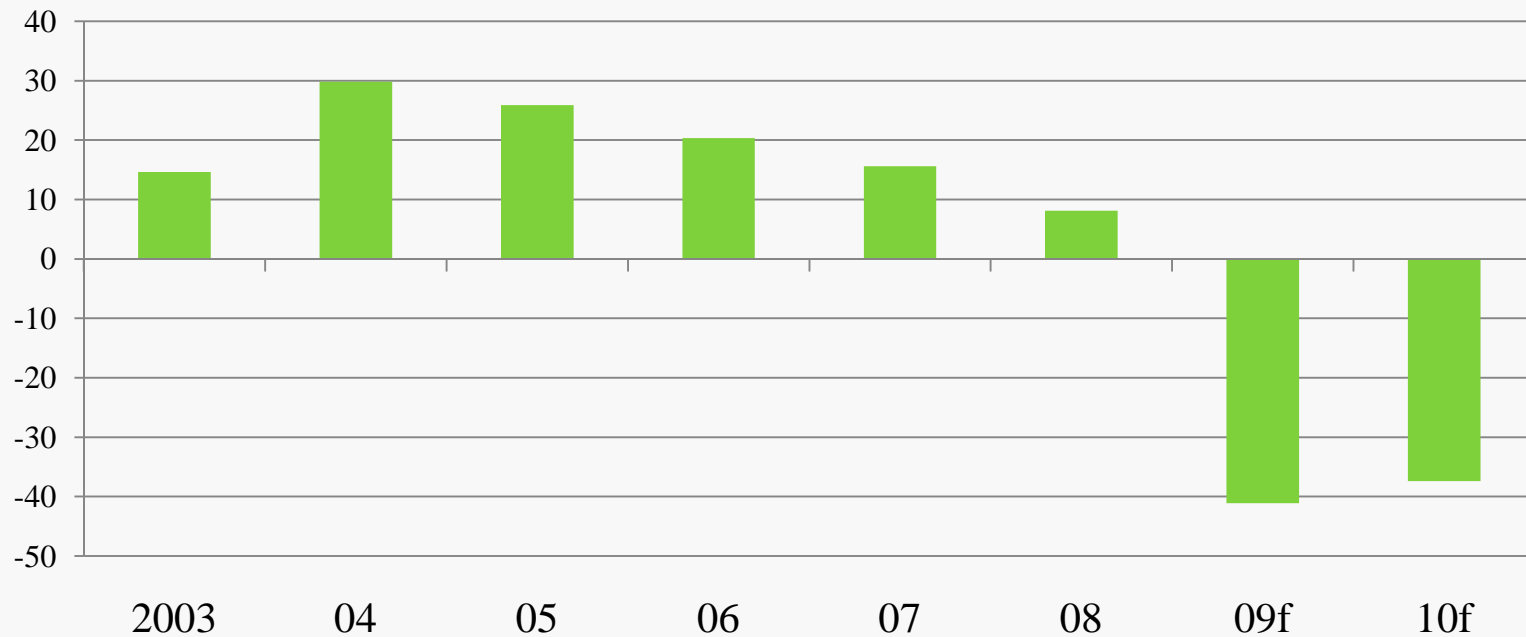
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Current Account Balance Plunges into Deficit

\$ Billions



Sources: Statistics Canada ; The Conference Board of Canada.



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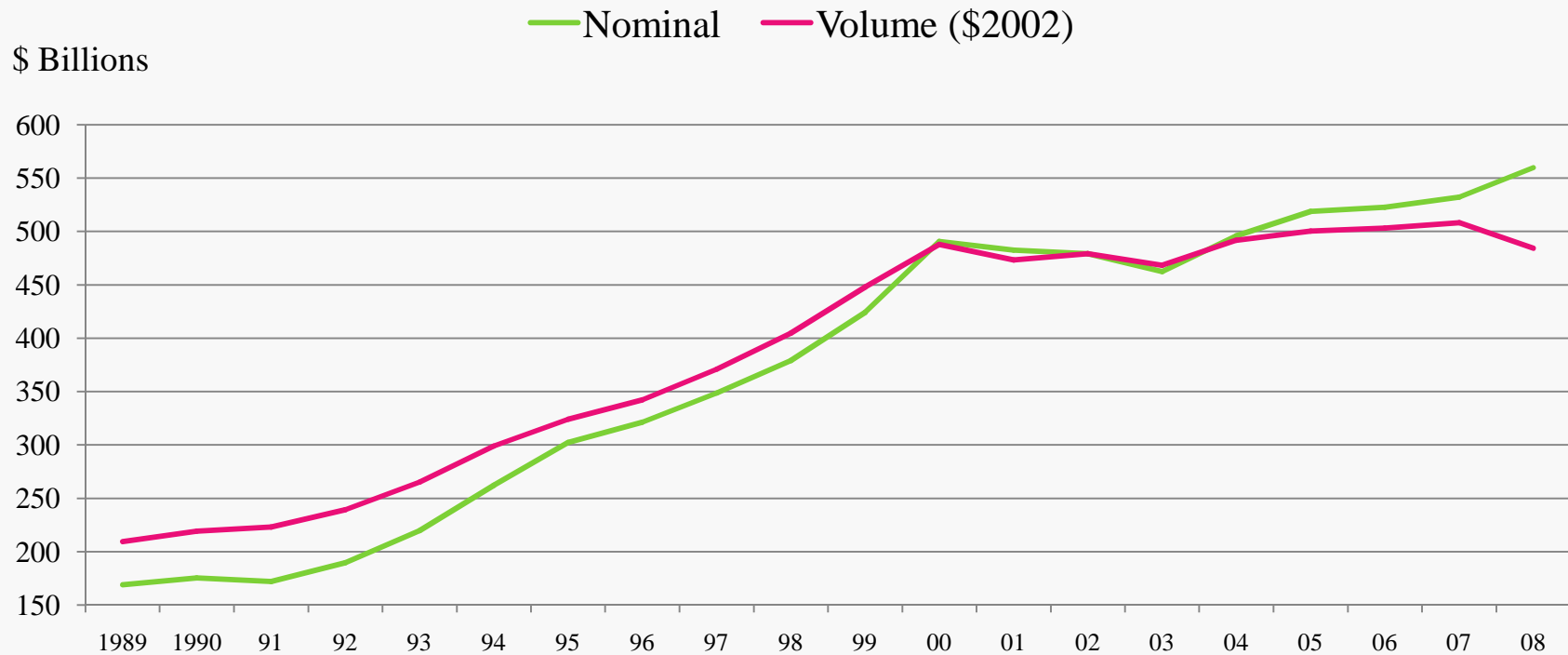


Time To Take a Close Look at Trade

- Exposes fault lines in international trade dynamics:
 - Discouraging pre-recession trade picture
 - Fundamental changes in shape of international trade and global economy
- The challenge:
 - Not simply surviving recession
 - Emerging better positioned for success in the global economy



Real Merchandise Trade Growth Has Been Flat Since 2000



Source: Statistics Canada.

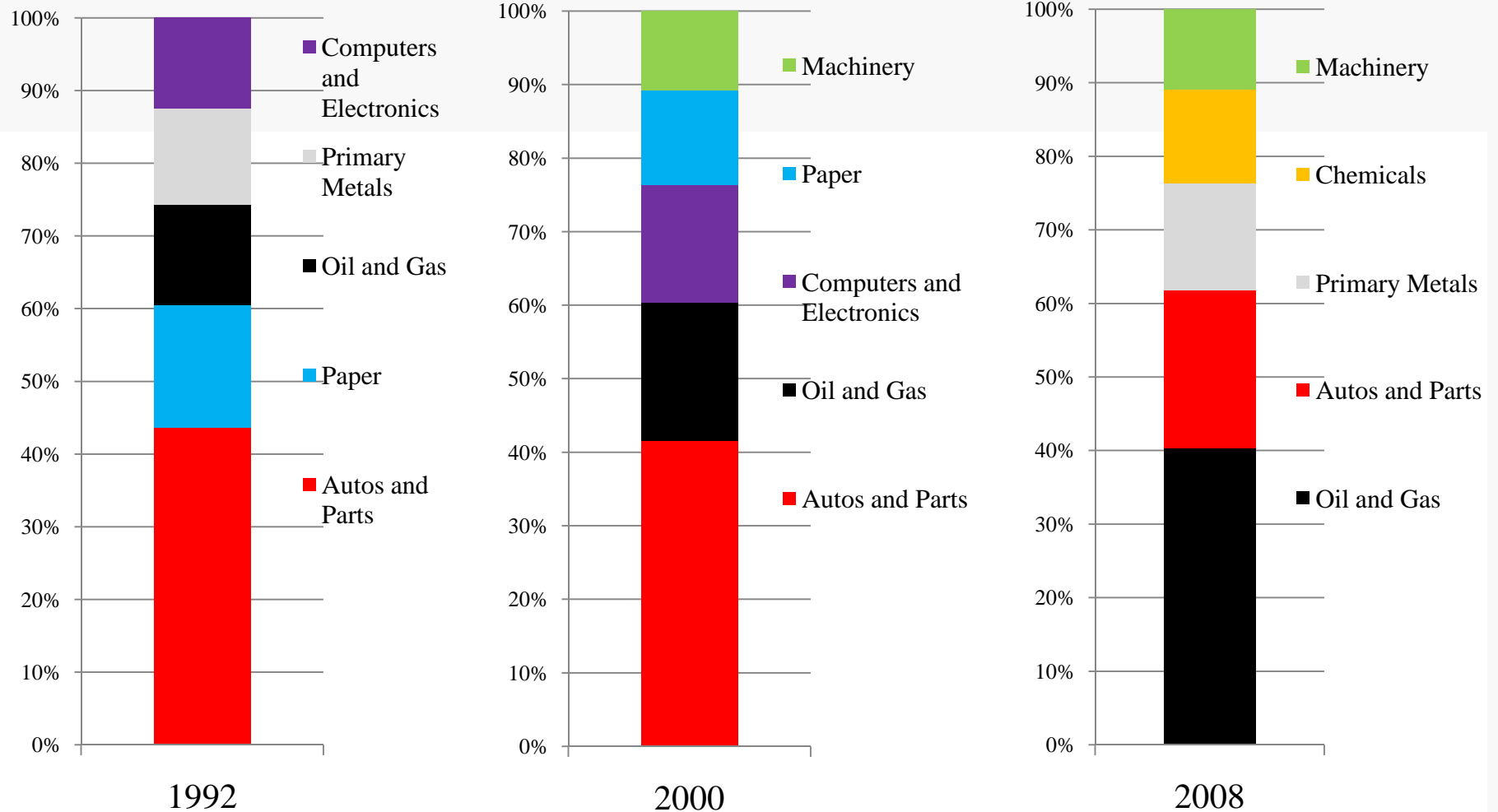


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Fundamental Shift in the Merchandise Export Mix (top five exports)



Sources: Statistics Canada ; The Conference Board of Canada.



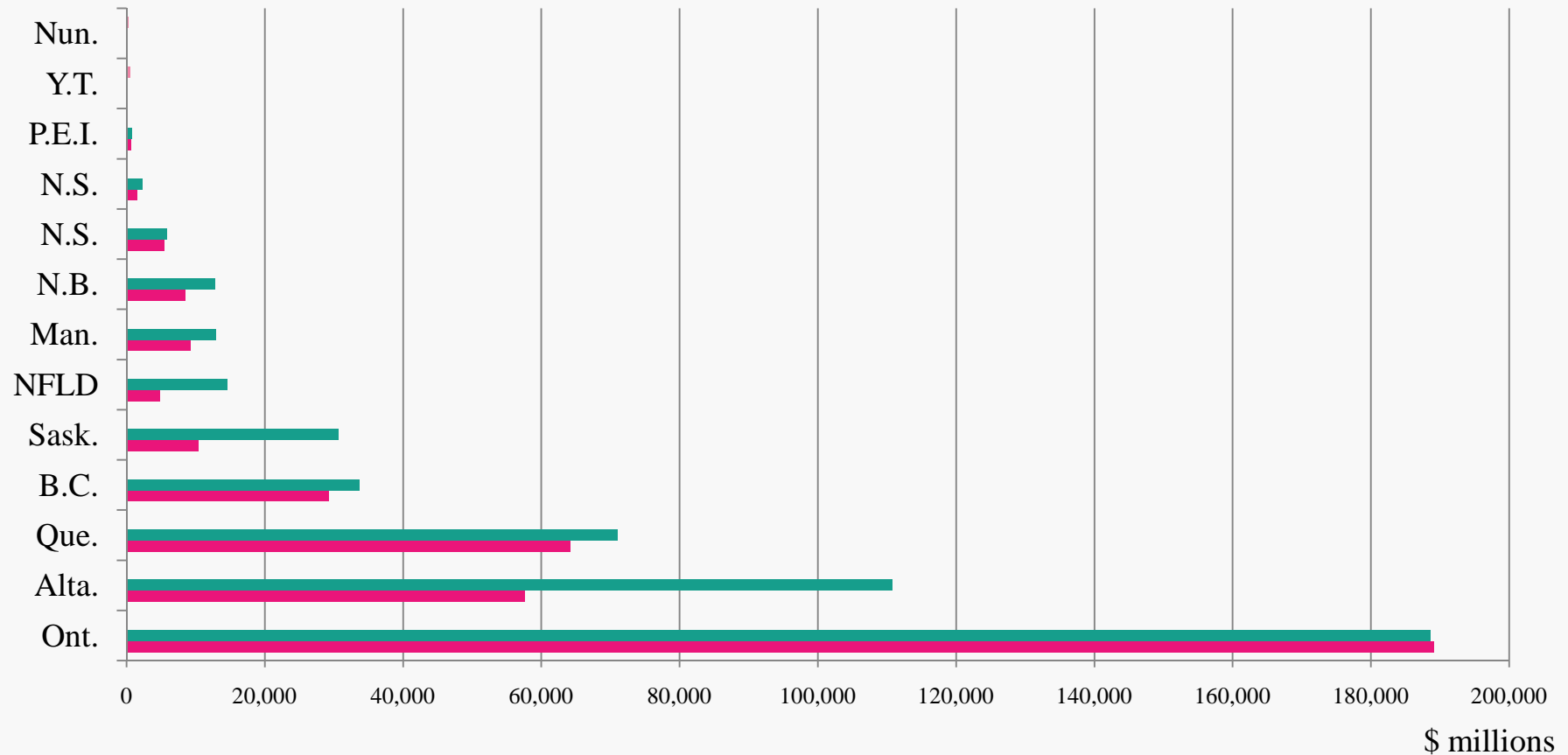
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Shift Mirrored in a Changing Regional Export Profile

■ 2008 ■ 2003



Sources: Statistics Canada ; The Conference Board of Canada.



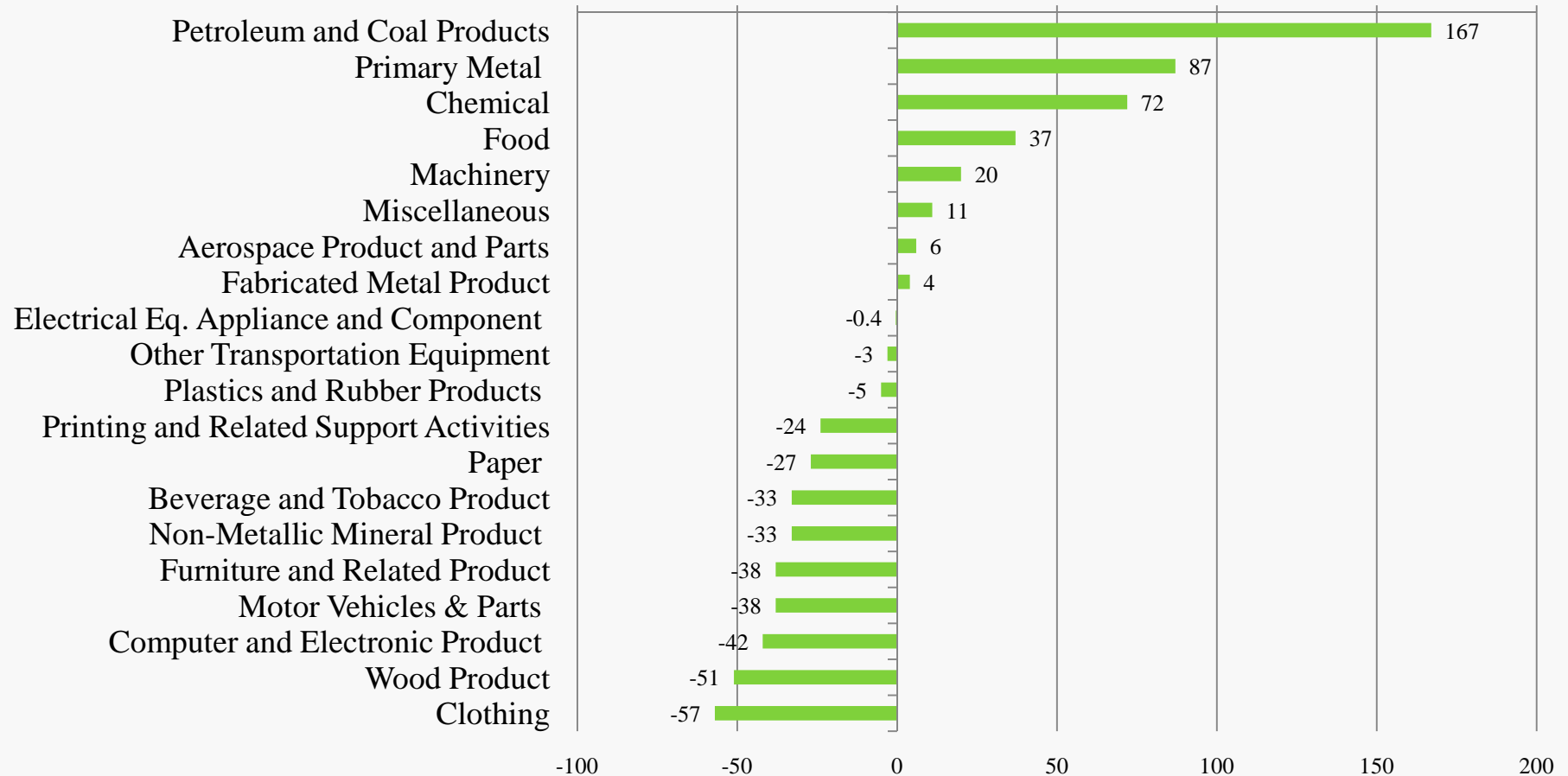
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Shrinking Manufactured Exports: What Grew, What Didn't

■ % Change 2008/2000



Sources: Statistics Canada ; The Conference Board of Canada.



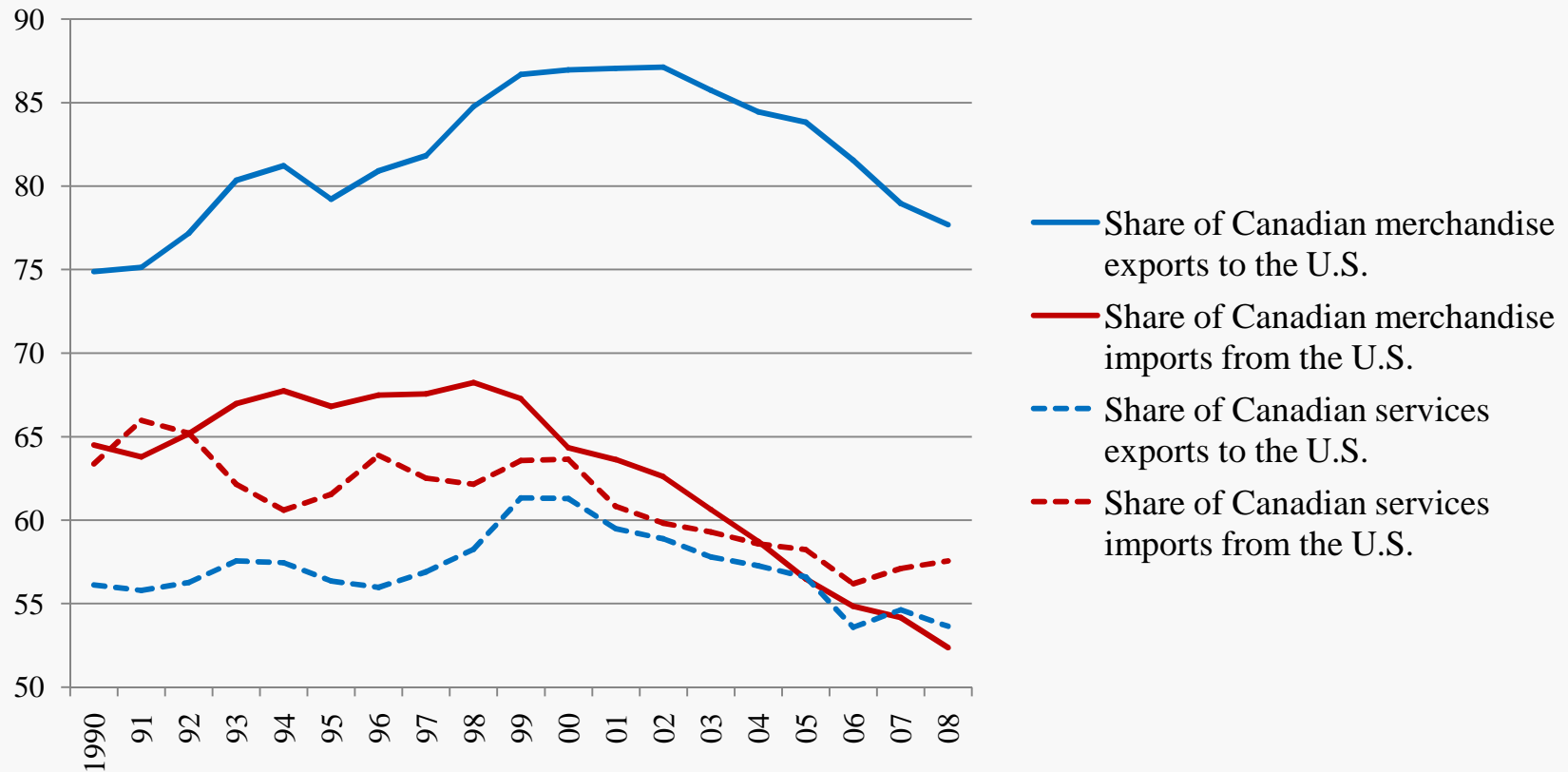
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Peaking Canada-U.S. Trade Integration

Share of Canadian Merchandise Trade to the U.S. (\$ billions)



Sources: Statistics Canada ; The Conference Board of Canada.



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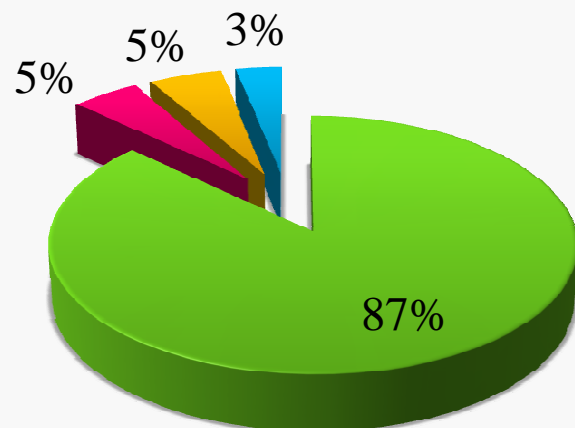
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Non-U.S. Trade: Growing Shares of Merchandise Exports

2000

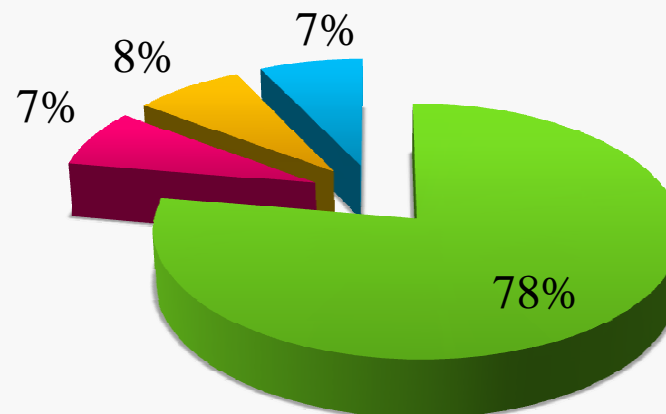
■ U.S. ■ EU ■ Asia ■ Rest of the world



\$413 billion

2008

■ U.S. ■ EU ■ Asia ■ Rest of the world



\$484 billion

Sources: Statistics Canada ; The Conference Board of Canada.



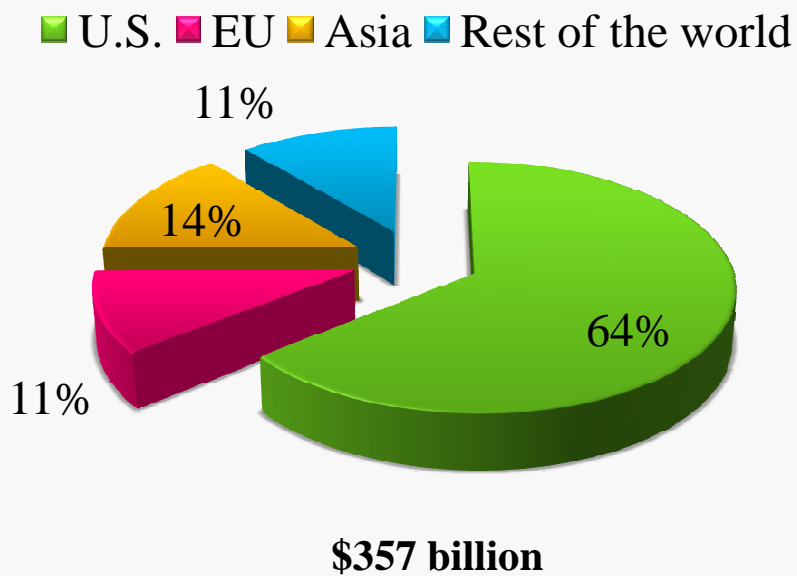
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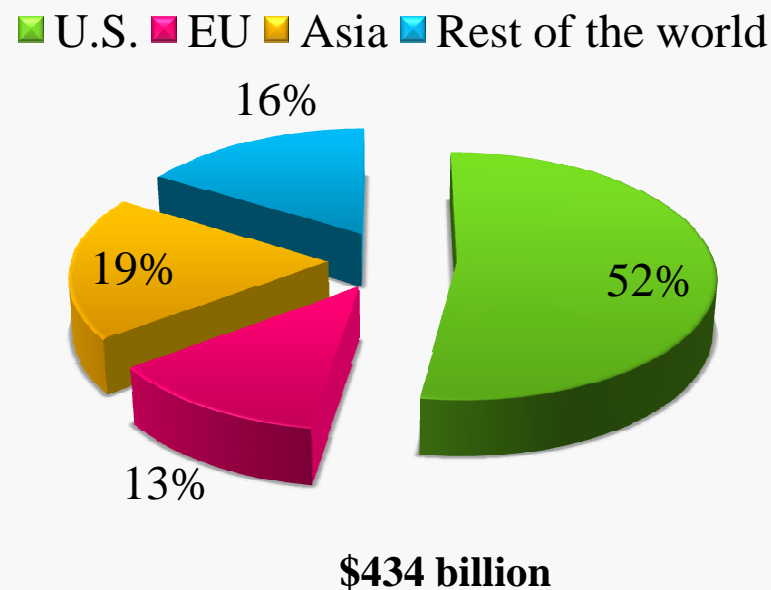


Non-U.S. Trade: Faster Growing Shares of Merchandise Imports

2000



2008



Sources: Statistics Canada ; The Conference Board of Canada.



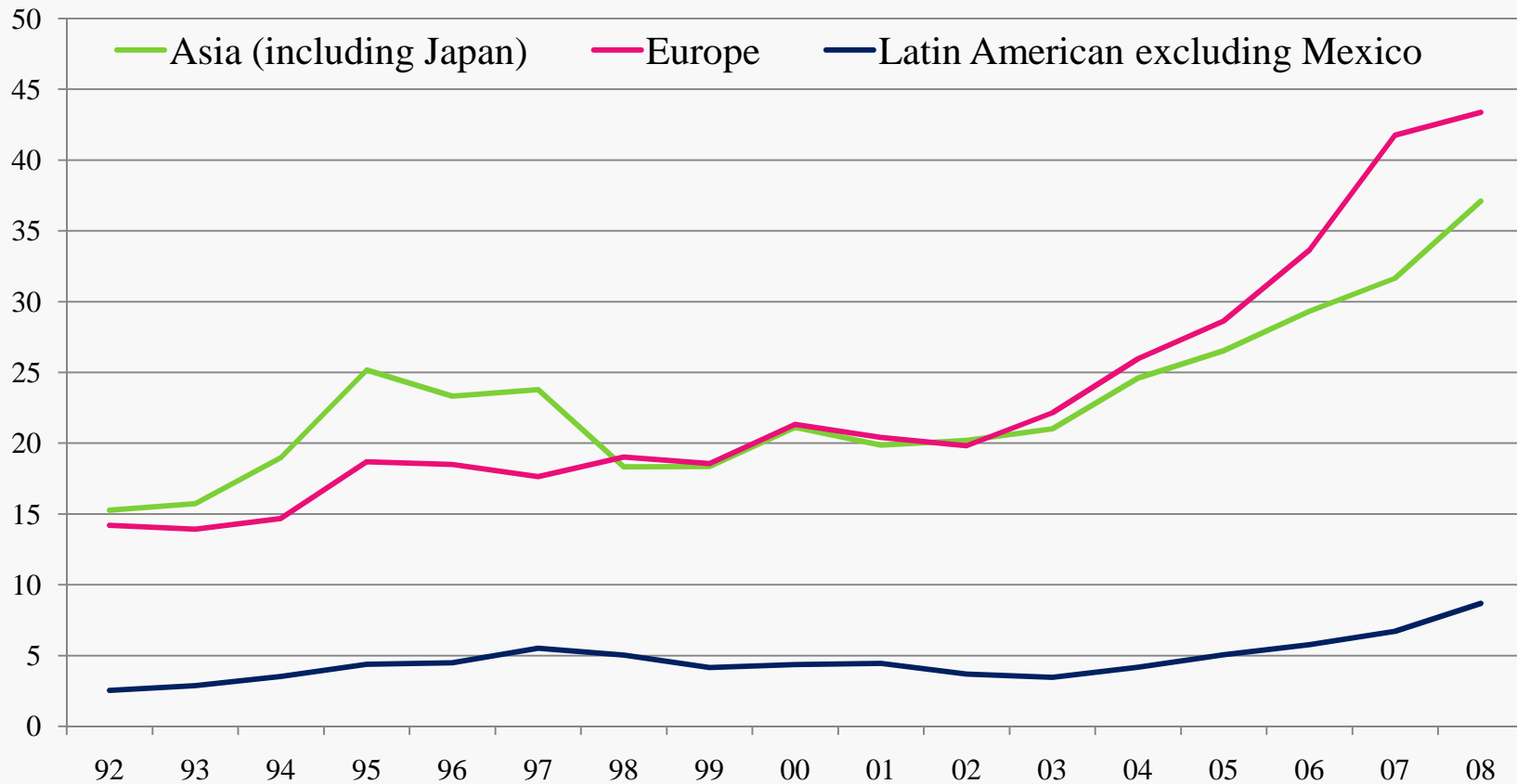
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Unrealized Non-U.S. Market Potential

\$ Billions



Sources: Statistics Canada ; The Conference Board of Canada.

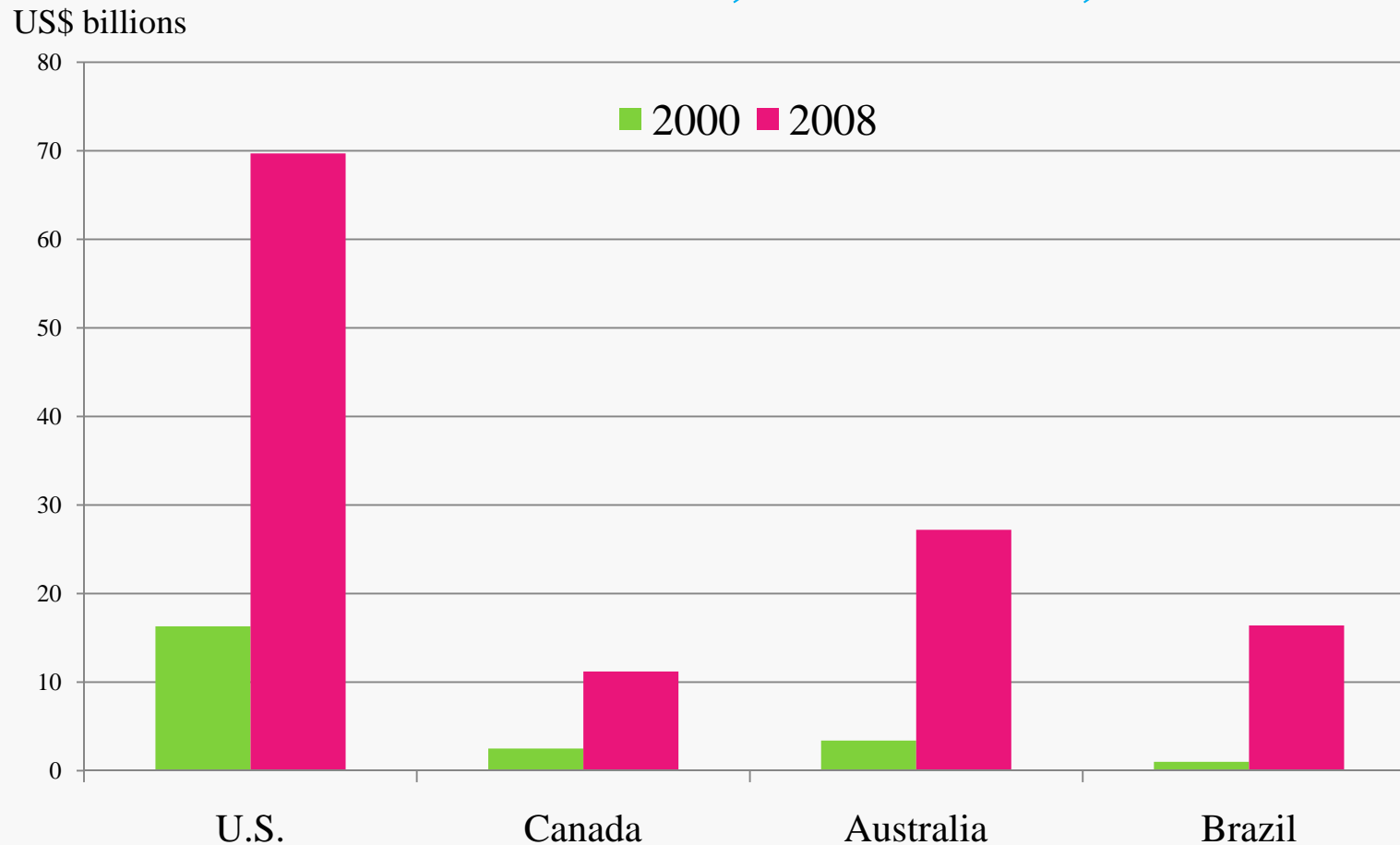


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Opportunity Gap? Canada's Exports* to China vs U.S., Australia, Brazil



* Merchandise exports

Source: PRC General Administration of Customs.



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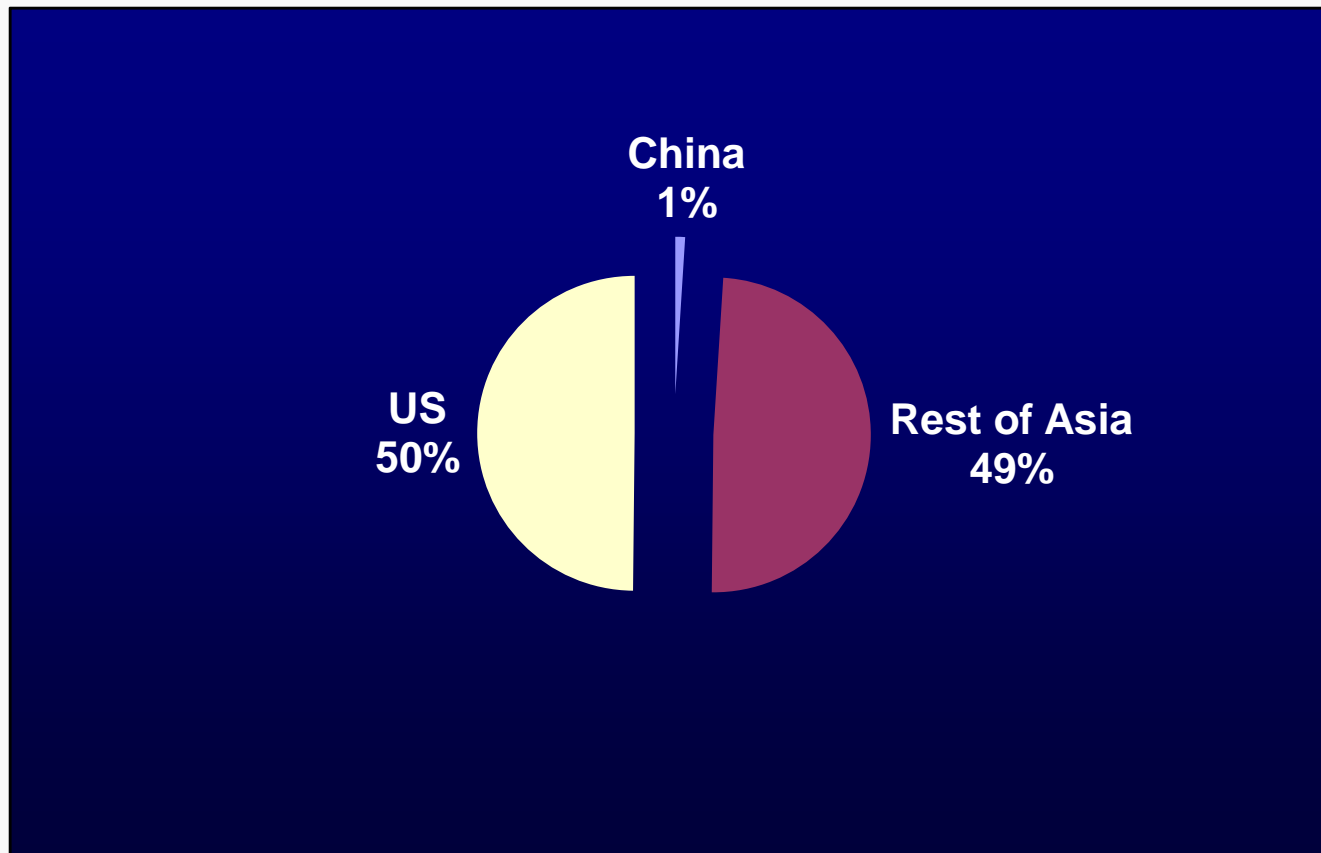


Underperformance in Key Trade Drivers

- Services puzzle: why is Canada's trade not more services oriented?
- Innovation: a consistent D overall - although high tech sector highly export oriented
- Weak inward foreign direct investment (FDI)

The Changing Shape of Trade: Where is Value Actually Created?

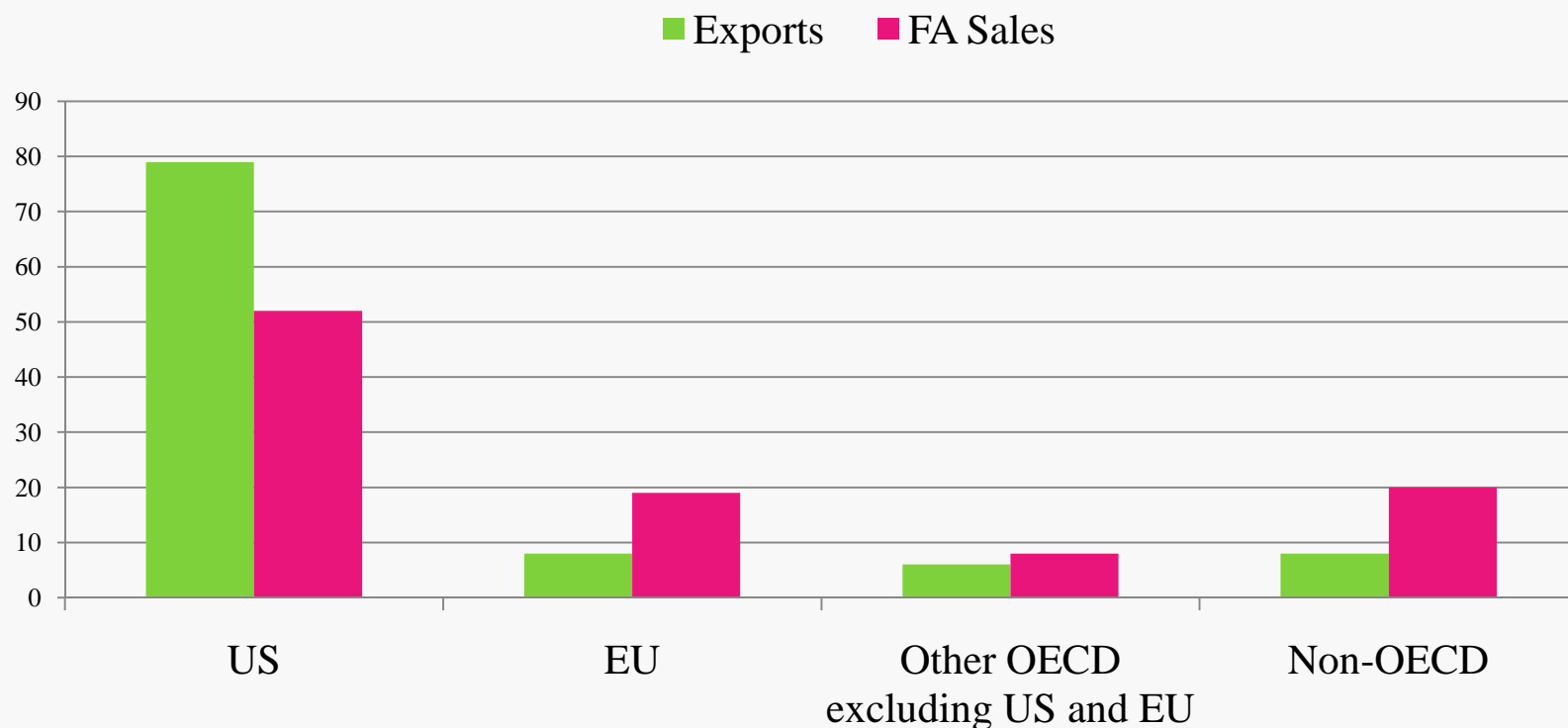
The Apple iPod example



Sources: Linden et al, "Who Captures Value?"; Goldfarb and Thériault, Canada's "Missing" Trade With Asia.

FSA's: Canadian Firms Sell More “in” Europe Than “to” Europe

Shares in Canadian Exports and Foreign Affiliate Sales
(per cent of total, 2007)



Source: Statistics Canada.



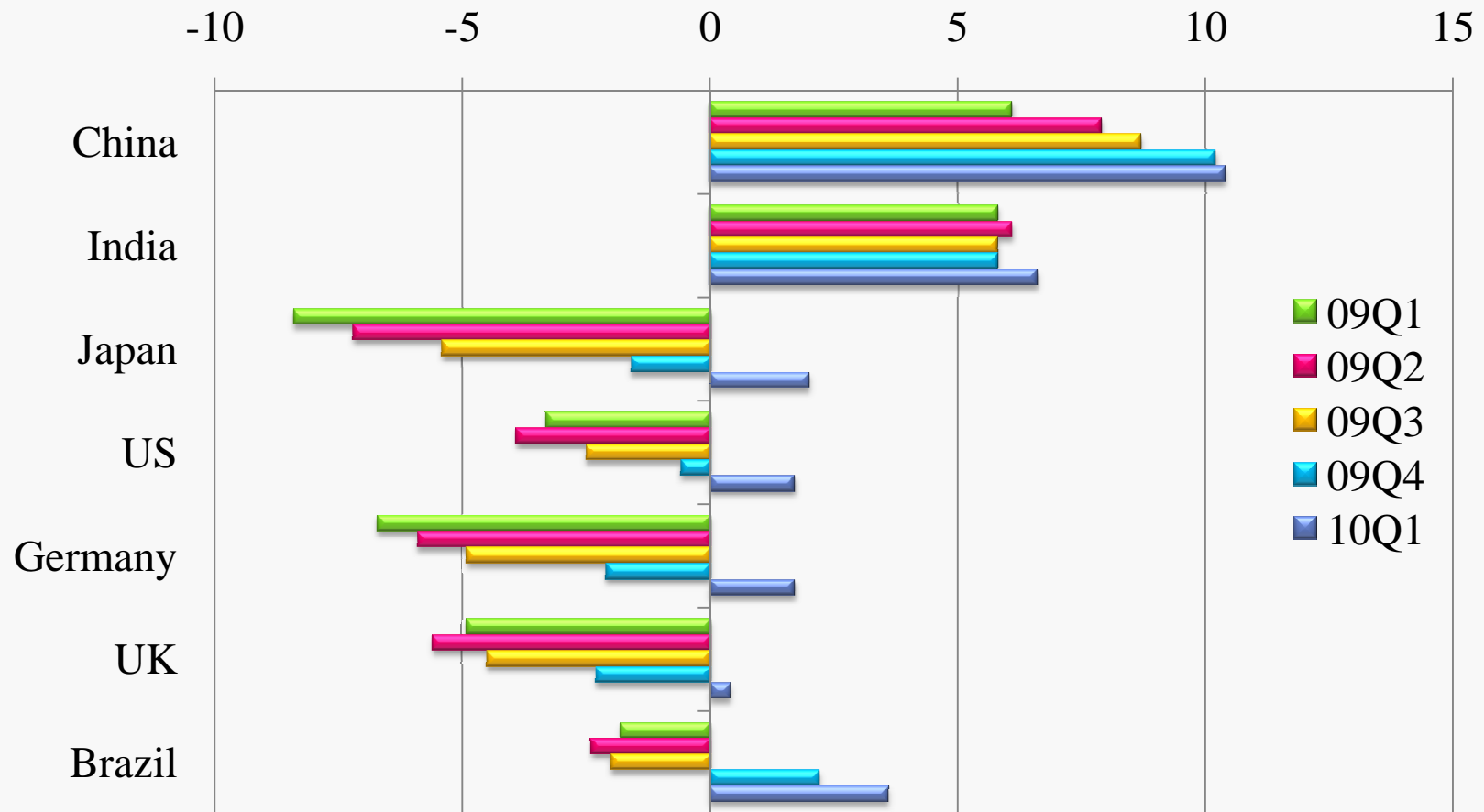
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GDP Growth: China Leads the Global Pack

Quarterly Change in Real GDP (Annualized)



Source: Consensus Economics.



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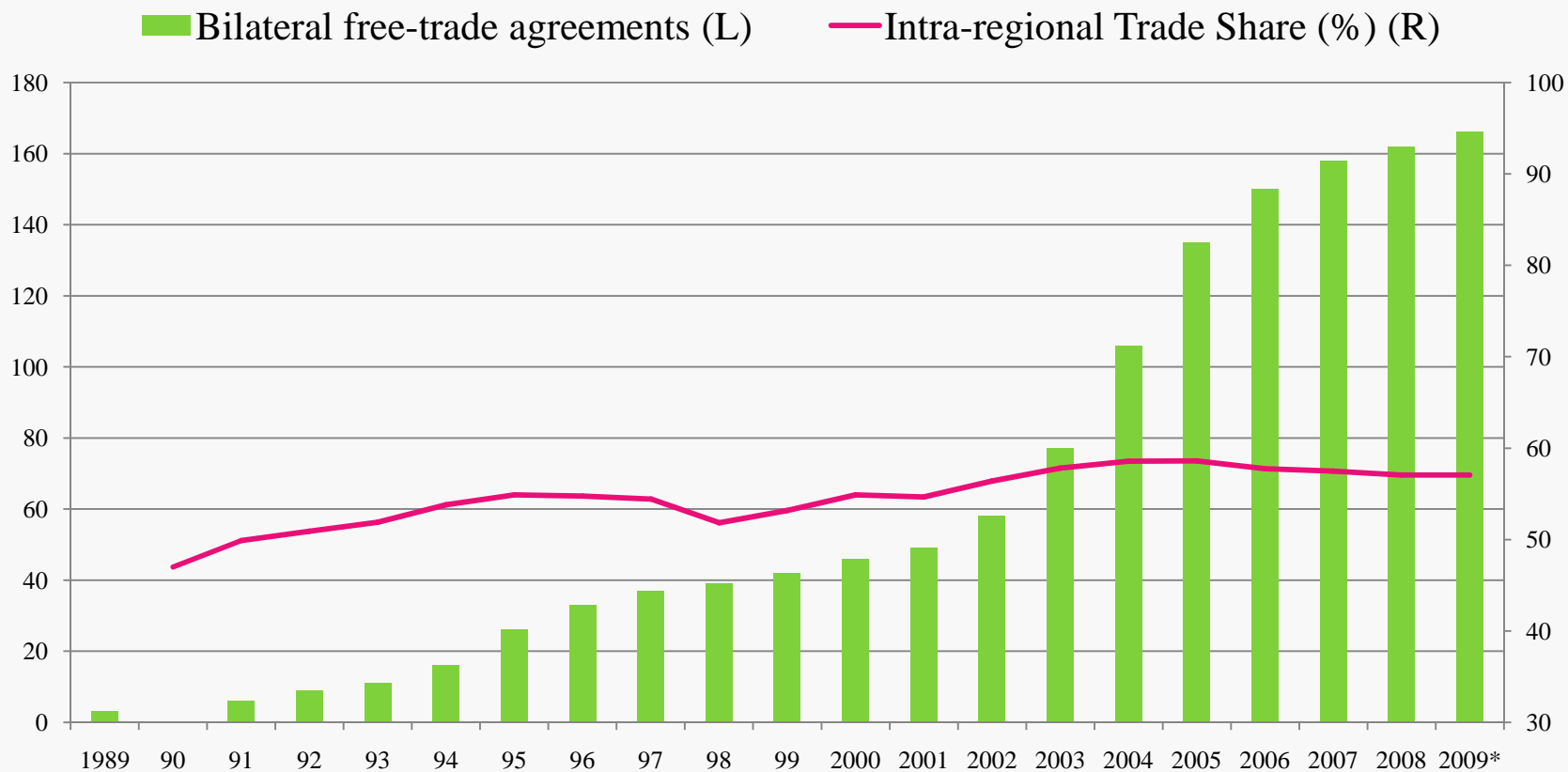
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Future Success: Adjusting the Prevailing International Trade Mindset

- Central importance of value chains and other aspects of the ascending international business model, “Integrative Trade”
- Changing international economic geography
 - Slower and more challenging U.S. market
 - Shifting engine of global growth – non-U.S. markets no longer secondary
- Impact of rising China and emerging Asia
- Uncertain future trade liberalization vs. protectionism

Trade Gains from Bilateral and Regional Trade Agreements?



•As of June 2009.

Source: Asian Development Bank. Chart represents inter-Asian trade deals and share of Asian trade.



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Strategic Priority 1: More Internationally Competitive Canadian Firms

- Improve core competitiveness
- Adopt integrative trade mentality
- Rethink the U.S. market and trade diversification
- Adopt a China/emerging Asia strategy



Strategic Priority 2: Stronger and More Forward Looking Trade Policies and Strategies

- Incorporate Integrative Trade into trade language, strategies and statistics
- Reduce firm transaction costs re U.S. – border, regulatory harmonization, barriers to imported inputs, remaining tariffs
- Rethink “NAFTA optic”
- Strengthen Canada’s profile in the WTO
- More substantial trade deals with larger countries

Strategic Priority 3: A More Supportive National Operating Environment

- Greater clarity and openness toward FDI
- Full implementation of labour credentials
- Open air transportation sector to cabotage
- More strategic investment in urban and transportation infrastructure
- Rethink the future workforce: immigration, aging workers, literacy, education and skills



Conclusions for Canadian Business and Governments

- Recovery does not spell trade success
- Trade outlook more critical and more challenging post-recession
- Avoid outdated perceptions - think differently about trade
- Bite the bullet - make Canadian firms and economy more truly competitive



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