



# Trends in Canadian Trade and Cross-Border Investment

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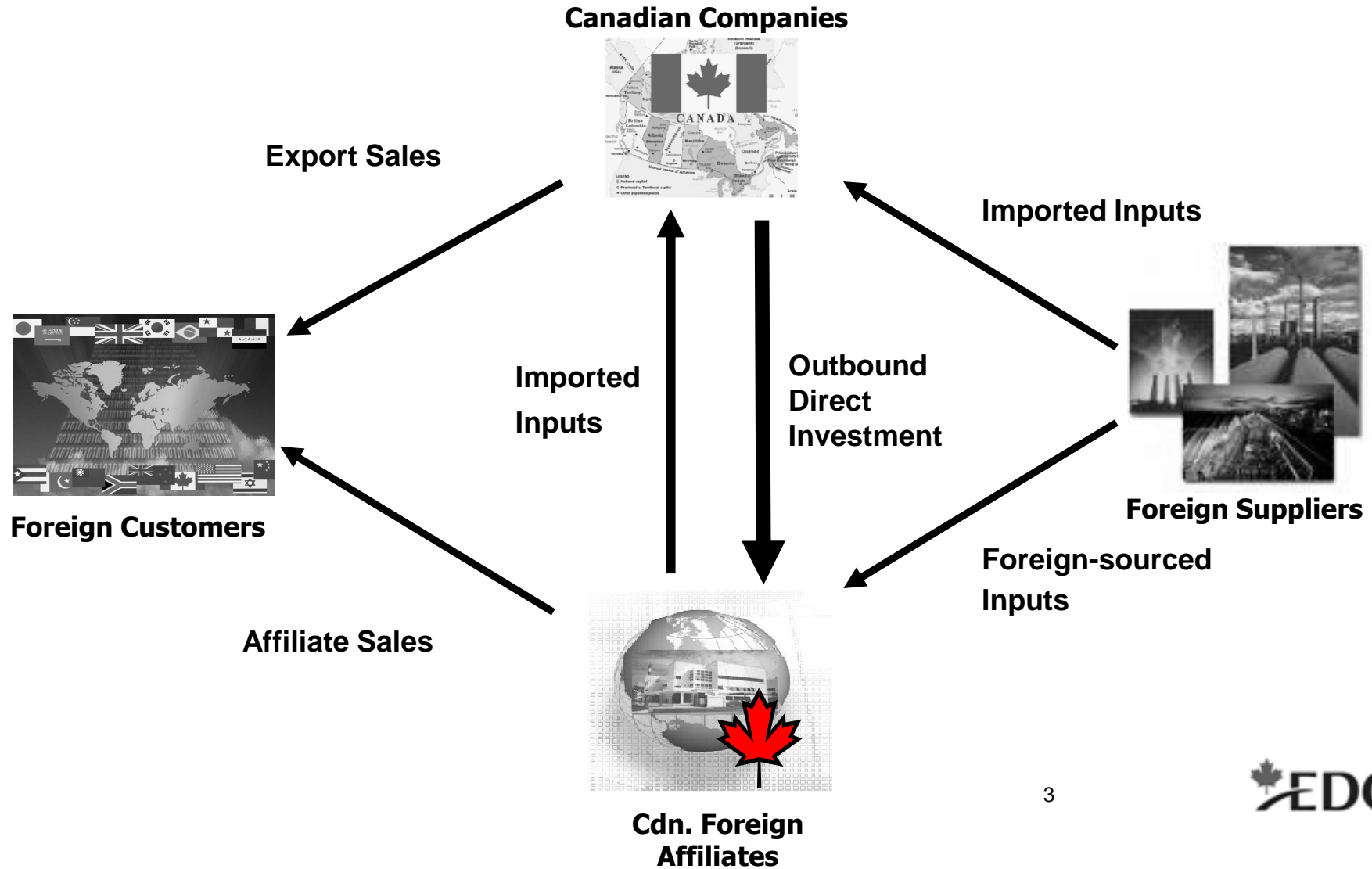
**International Trade and Investment Centre**

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# Agenda

- ▶ Canadian trade and cross-border investment trends
- ▶ Benefits of cross-border investment
- ▶ EDC research on investment and commercial ties
- ▶ Role of company size in CDIA decisions
  - ▶ SME CDIA – a blind spot for too long
- ▶ What to expect going forward

# The Integrative Trade Model

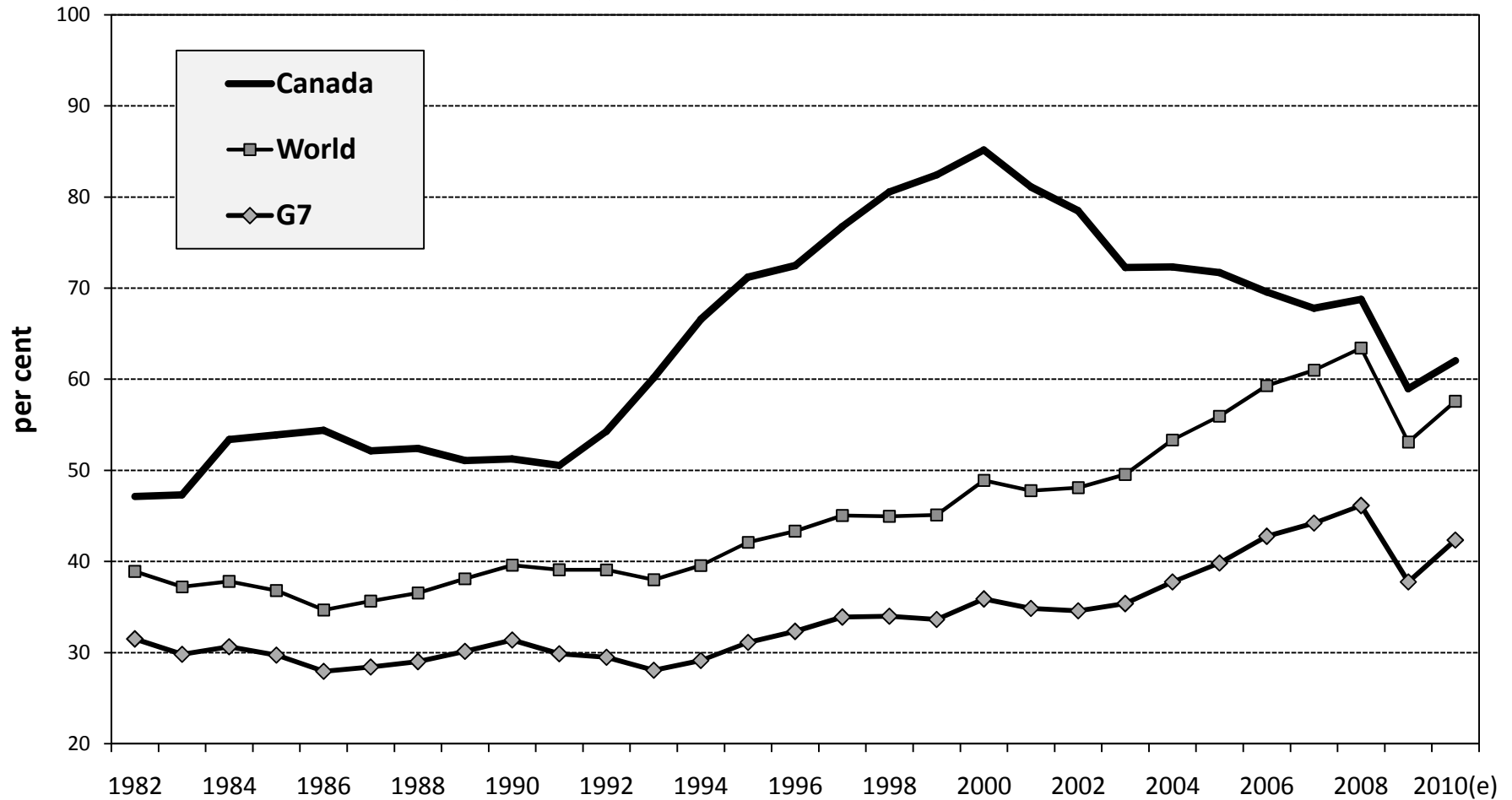


# Canada's Trade Performance Faltering

- ▶ Export growth has stalled in recent years
  - ▶ Exports to the US have declined – non-US markets now account for nearly 30% of Canadian exports
  - ▶ Energy and commodities increasing, but manufacturing down
- ▶ Several factors to consider for the poor performance
  - ▶ Reliance on US market, coupled with a strong C\$
  - ▶ Lack of innovation – lower productivity and reduced competitiveness
  - ▶ Falling number of exporters, especially new and smaller ones
- ▶ Trade diversion through Canadian foreign affiliates
  - ▶ Some exporters have moved production offshore, which channels Canadian exports to their foreign-based affiliates

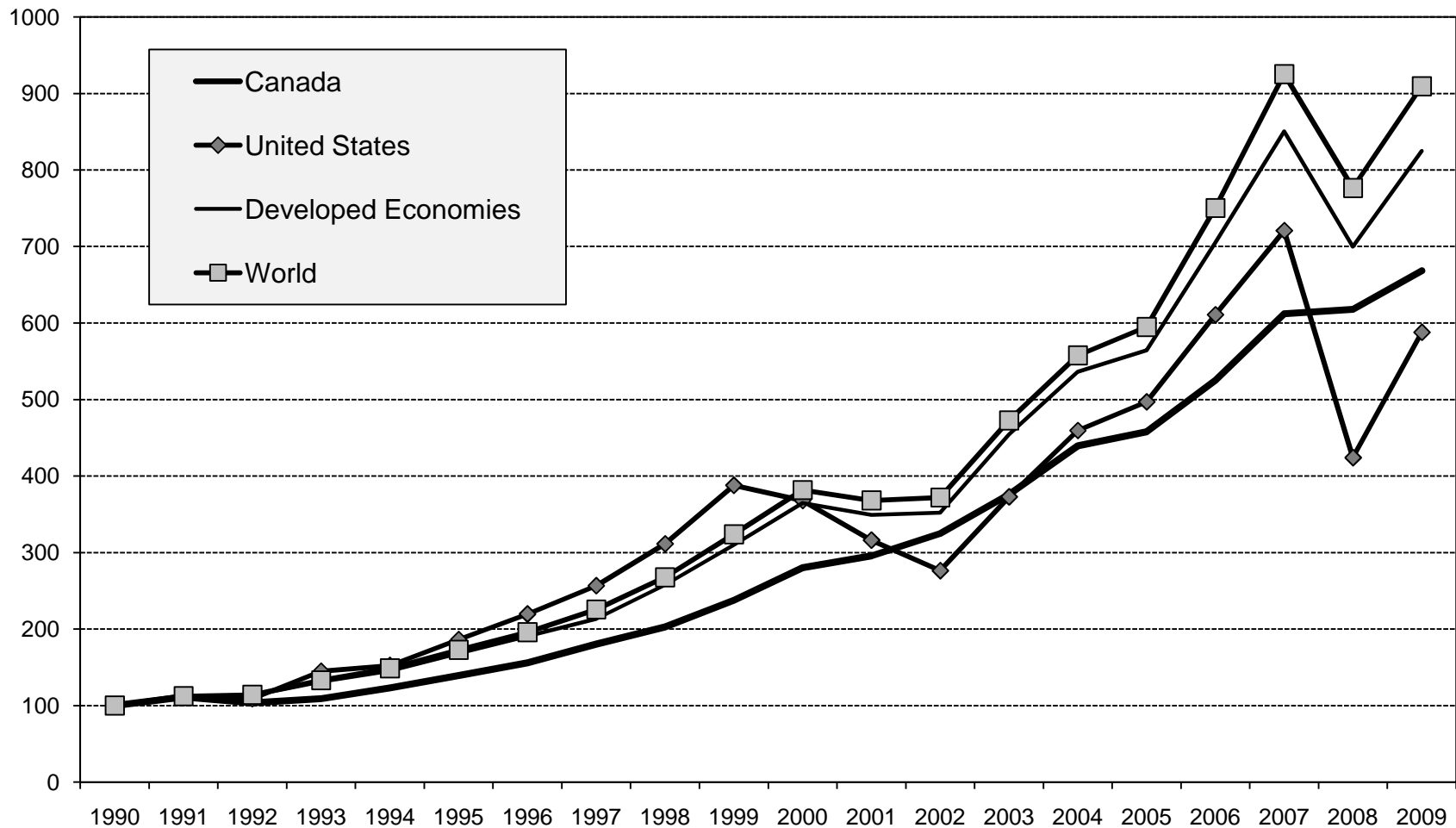
# Falling Trade Penetration Underscores the need for Canadian Companies to Continue Diversifying Markets

## Trade Penetration: Canada and World (Exports + Imports as a share of GDP -- using nominal \$ data)



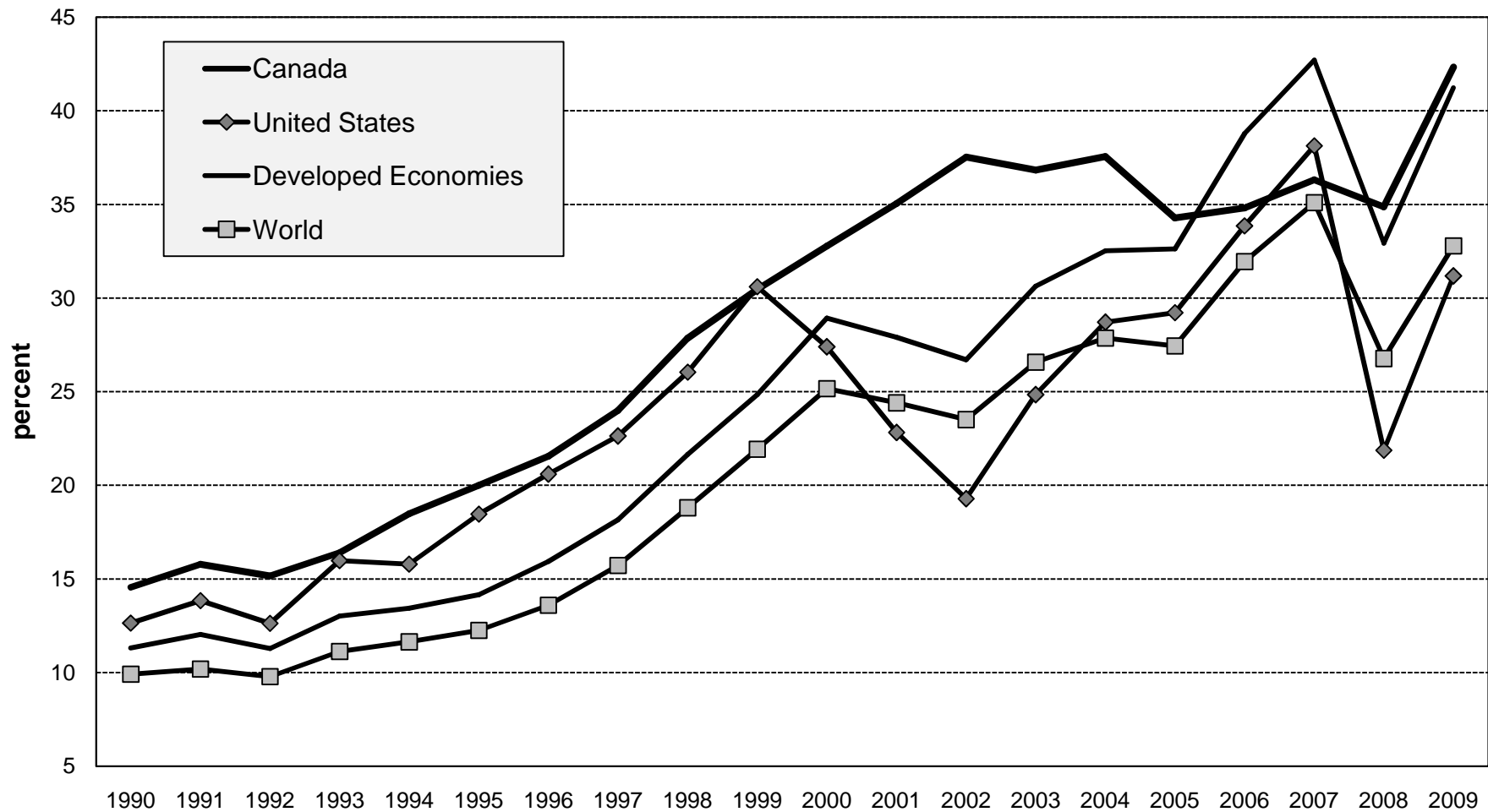
# Canada's Growth in Outbound FDI lags the World and other Developed Economies ...

## Outward FDI Stock (1990 = 100)



... But we are ahead in terms of Outward FDI to GDP

Ratio of Outward FDI Stock to GDP (%)



## Canadian Companies can Benefit from a Global View

- ▶ The pressures to globalize have never been greater
  - ▶ Competitive pressures increasing
  - ▶ Most global growth will be in emerging markets
  - ▶ Sticking with traditional markets will mean declining sales
- ▶ The integrative trade approach provides the tools to boost a company's competitiveness and productivity
  - ▶ Strategies will vary from company to company
  - ▶ Reduce costs, access to new markets
  - ▶ Support innovation
- ▶ Canadian SMEs should increase efforts to integrate themselves into global production networks
- ▶ Canadian business shouldn't oppose new entrants into our domestic markets – being protective can hurt

## Research at EDC – CDIA and Trade

- ▶ Literature is inconclusive on the causal nature of the relationship between outbound FDI and exports
  - ▶ Classical theory suggests FDI is a substitute for exports of finished goods by transferring the location of production
  - ▶ New trade theory argues trade and FDI are complementary
  - ▶ Empirically, the relationship depends on country-specific factors, and the type of FDI
- ▶ EDC's Corporate Research Department used a gravity model to estimate the impact of CDIA on exports
  - ▶ Relationship is positive and statistically significant for industrial and developing countries
  - ▶ Our model uses annual stock of CDIA – next step is to use proxies for greenfield and M&A in a model using quarterly flows

## SMEs and CDIA

- ▶ More Canadian SMEs have an overseas presence than we might think
  - ▶ 8.3% of all small exporters (~ 2,000)
  - ▶ 18.6% of all medium exporters (~ 1,500)
- ▶ CDIA drivers are the same, irrespective of exporter size
- ▶ Foreign affiliates (FA) are used by small exporters mostly for sales, distribution and after-sales service
- ▶ SMEs half as likely to be selling or producing intermediate goods than large exporters
- ▶ SMEs' FAs more likely to be selling only in the host country – large exporters' FAs sell to host and others

# SMEs and CDIA

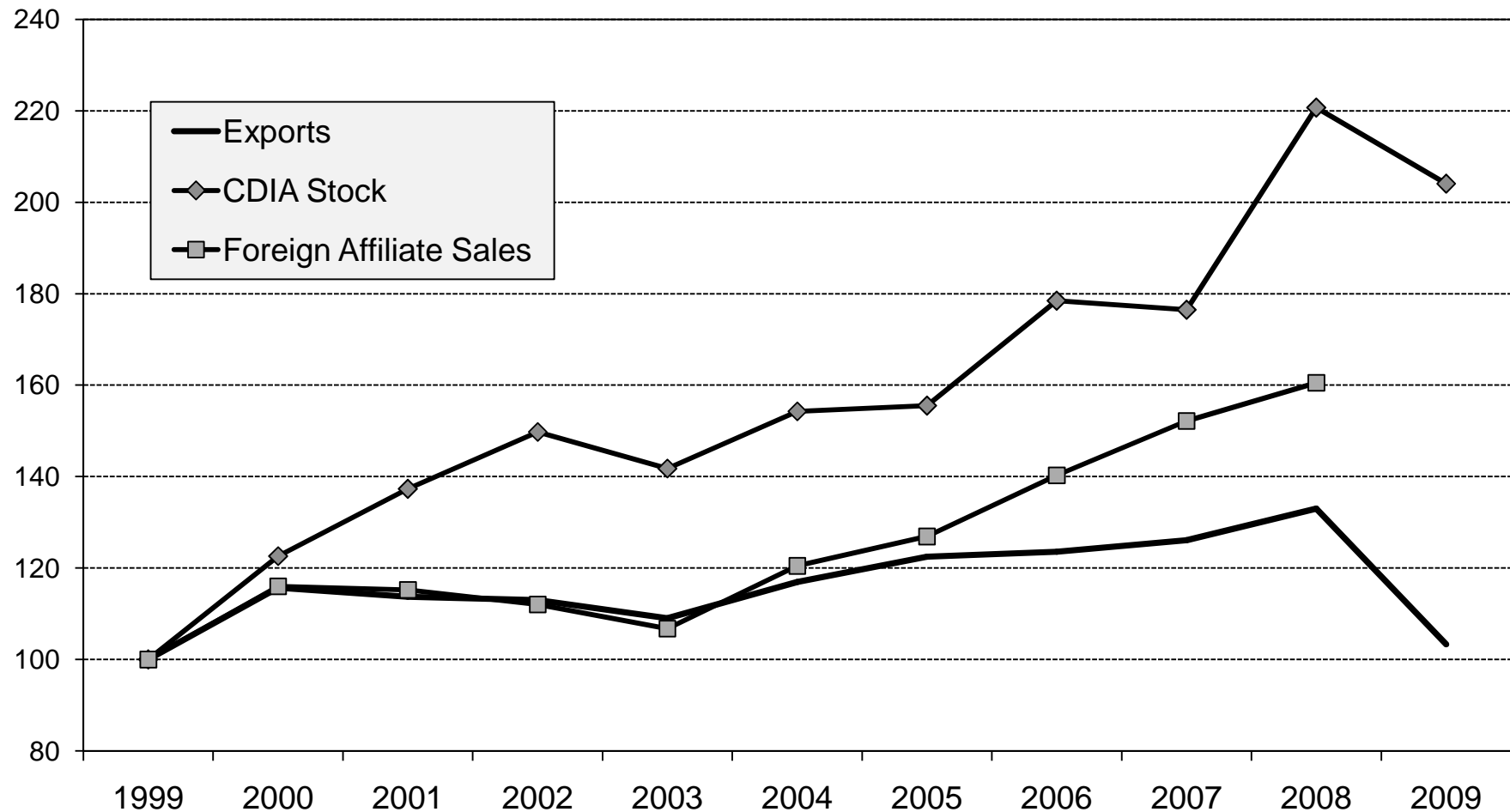
- ▶ SME challenges when planning CDIA:
  - ▶ Financing
  - ▶ Finding resources in Canada to help them with their project
  - ▶ Finding local business partners and advisers
- ▶ SMEs have fewer issues with the following once the investment has been made:
  - ▶ Managing local workforce, dealing with local bureaucracy
  - ▶ Complying with local laws and regulations
- ▶ SME reasons for not investing
  - ▶ Satisfied with returns provided by exporting
  - ▶ Too risky, lack of internal competencies
  - ▶ Lack of financing

# EDC's CDIA and FDI-in Support Framework

- ▶ EDC recognizes the benefits that integrative trade can provide for Canada and Canadian companies
- ▶ A significant obstacle faced by Canadian companies in foreign expansion is the ability to secure financing and tools to manage risks
- ▶ We support Canadian exports, foreign affiliates, CDIA and FDI-in through our insurance and financing products
- ▶ All CDIA and FDI-in must meet EDC's mandate, Canadian benefits, environmental and CSR criteria
- ▶ Normal credit review process

# Growth in CDIA Stock and Foreign Affiliate Sales Outpacing Exports – A Trend Expected to Continue

## CDIA Stock, Foreign Affiliate Sales and Exports (1999 = 100.0)



## Conclusion

- ▶ Canadian companies need to diversify their markets
  - ▶ Economic growth and rising investment in emerging markets offers new opportunities
  - ▶ Strong C\$ forcing companies to pursue new markets
  - ▶ Integrative trade can help boost competitiveness and productivity (an area where Canada has been falling behind)
- ▶ CDIA should be focused and supported with a good business plan, based on company's needs and capabilities
- ▶ Increasing cross-border investment (both ways) will support growth in Canada's trade and foreign affiliate sales

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