



Foreign Affairs and  
International Trade Canada

Affaires étrangères et  
Commerce international Canada

Canada

The background features a large, stylized maple leaf in shades of brown and orange on the left side, partially overlapping a dark blue world map. The map shows the continents in a lighter blue tone. The overall design is clean and professional, with a focus on Canadian identity and international trade.

# **The Case for Trade ...and Research**

Presentation to  
International Trade and Investment Centre  
Conference Board of Canada

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# Overview

- **Importance of trade**
- **Structural changes:**
  - Markets
  - Prices
  - Changing nature of international trade
- **Trade policy and promotion**
- **Knowledge gaps**
- **Conclusions**



# Importance of Trade



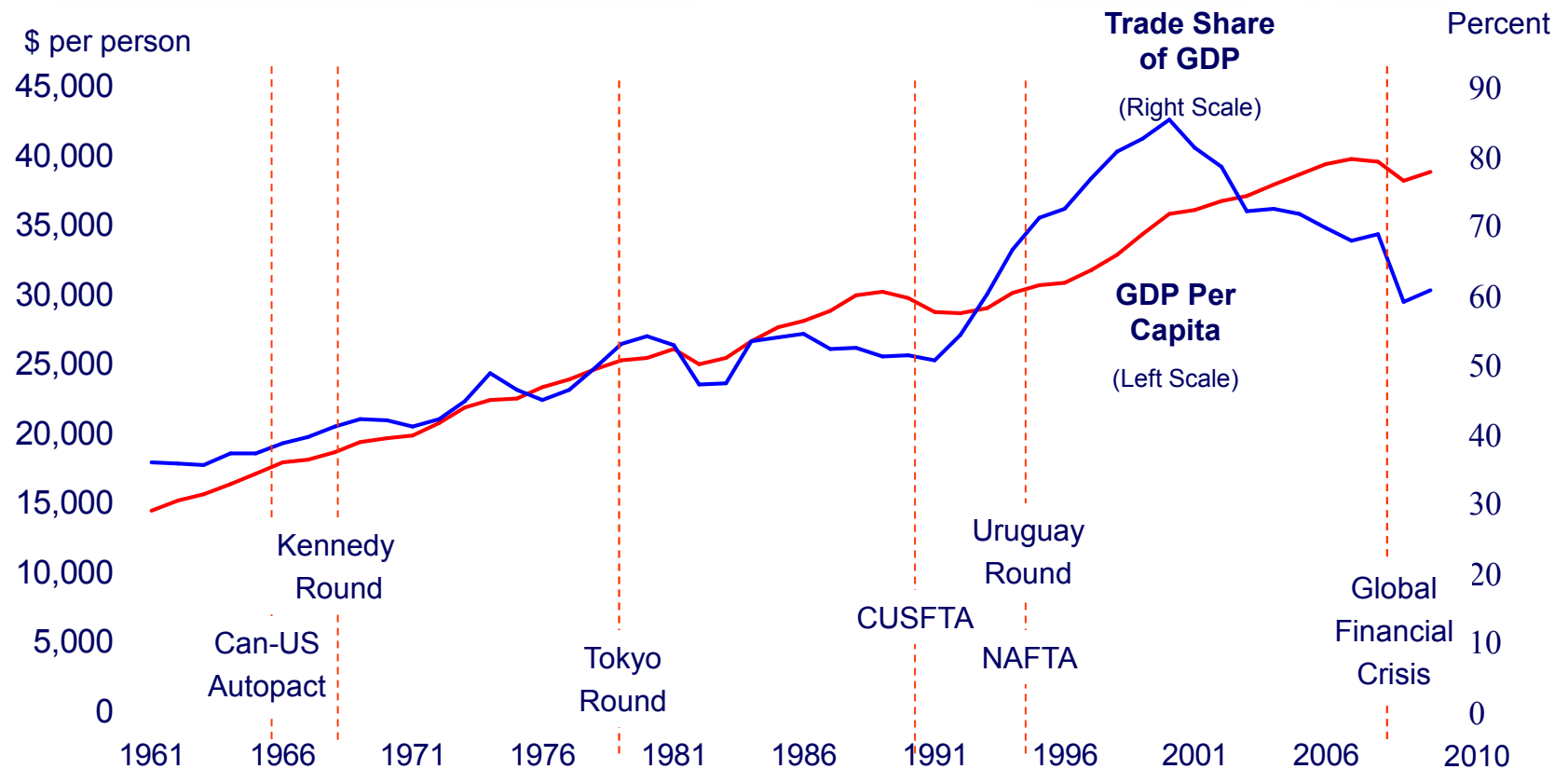
## Trade is important for the Canadian economy

- **Trade is equivalent to 60.6% of Canadian GDP.**
  - In 2010, Canadian firms exported \$476.1 billion in goods and services.
  - More than 45,000 Canadian firms are actively engaged in exporting.
  - Canadian firms operating abroad had total sales of \$508 billion.
- **Almost half of Canadian manufacturing output is sold outside of Canada.**
- **One-in-five jobs in Canada are linked to trade.**



# Trade and improved standards of living go hand-in-hand for Canada

## Trade and Standards of Living in Canada



Source: Office of the Chief Economist, DFAIT  
Data: Statistics Canada



# There are four fundamental gains from trade

## 1. Wider selection of goods and services at lower prices

- Goods that would not otherwise be available; bananas, French wines, coffee, tomatoes in the winter.
- But also greater variety and choice of products such as cars, phones, and apparels.

## 2. More efficient allocation of resources

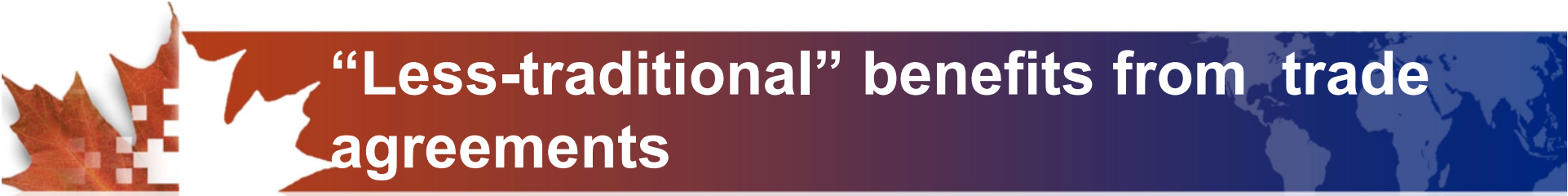
- Canada has evolved into a leading producer of several key products; For the 2008/2009 season, Canada was the world's third largest wheat exporter, one of the world's top exporters of many resources, and a key producer of cars and aircraft.

## 3. Scale and scope

- In fiscal year 2010, RIM spent \$965 million on R&D, spread over 26 million devices sold around the world.
- Bombardier is expected to spend about \$4.5 billion in Canada developing its new aircraft over the next few years, but only about 4% of Bombardier's revenue came from Canada in 2009.
- The size of the average manufacturing firm increased 34% following the Canada-U.S. FTA (Head and Ries, 1999).

## 4. Increased competition and innovation

- Firms that enter export markets enjoy 4 percentage points higher annual productivity growth than non-exporters (Baldwin and Yan, 2009)
- New exporters to the U.S. following the Canada-U.S. FTA were 160% more likely to engage in product innovation and 215% more likely to adopt a new manufacturing technology (Lileeva and Trefler, 2007).



## **“Less-traditional” benefits from trade agreements**

- **Trade agreements (bilateral, regional or multilateral) create a system of rules:**
  - **Help prevent arbitrary use and abuse of power (e.g. ‘buy national’ policies, use of safeguards or CV & anti-dumping as trade protectionist measures);**
  - **Create level playing field for all participants (e.g. dispute resolution);**
  - **Build business confidence through predictability and certainty of the rules;**
  - **Especially important for smaller players!**
  
- **Create, or offset, preferential access**
- **Create new investment opportunities**
- **Enhance diplomatic and economic posture**
- **Could improve enforcement of labour and environmental regulations**



# **Three Structural Changes: The Challenges and Opportunities**



## **Challenges and Opportunities:**

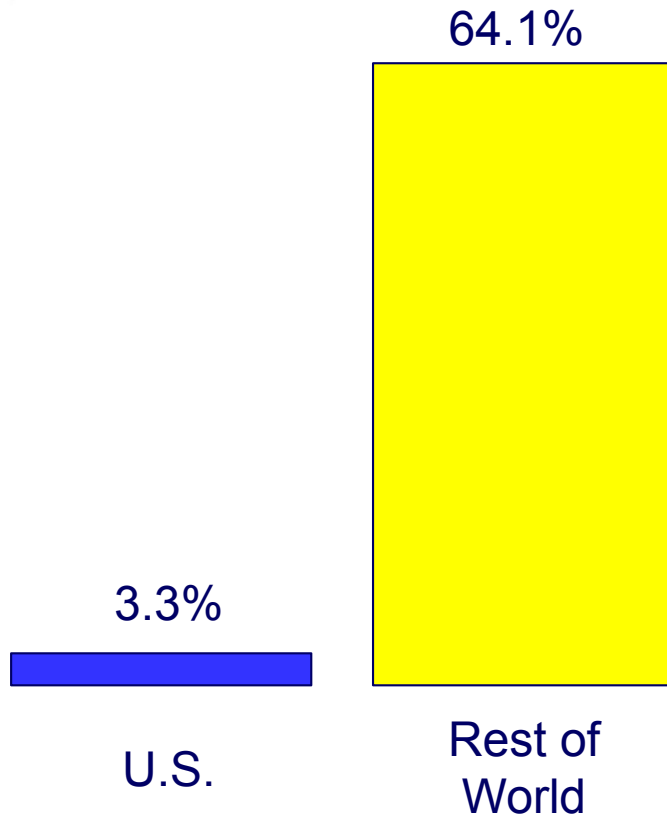
### **Markets**

Canadian exports to emerging economies have performed well, but not sufficiently to offset the weakness in the U.S. market, particularly in the non-resource sector.

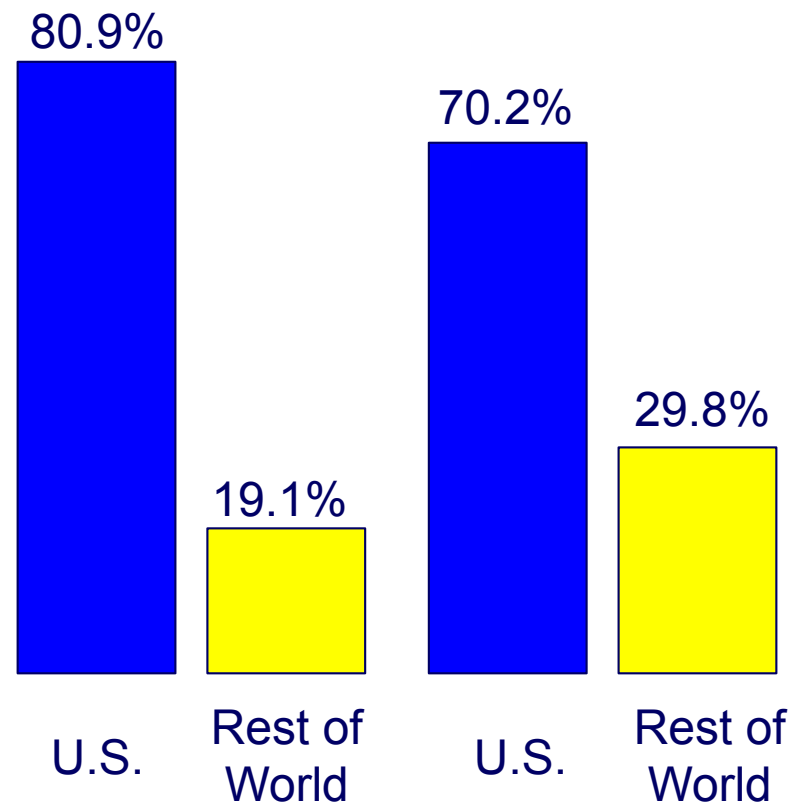


# Canadian exports have been diversifying...

## Growth in Canadian Exports 2000-2008



## Distribution of Canadian Exports 2000                      2008



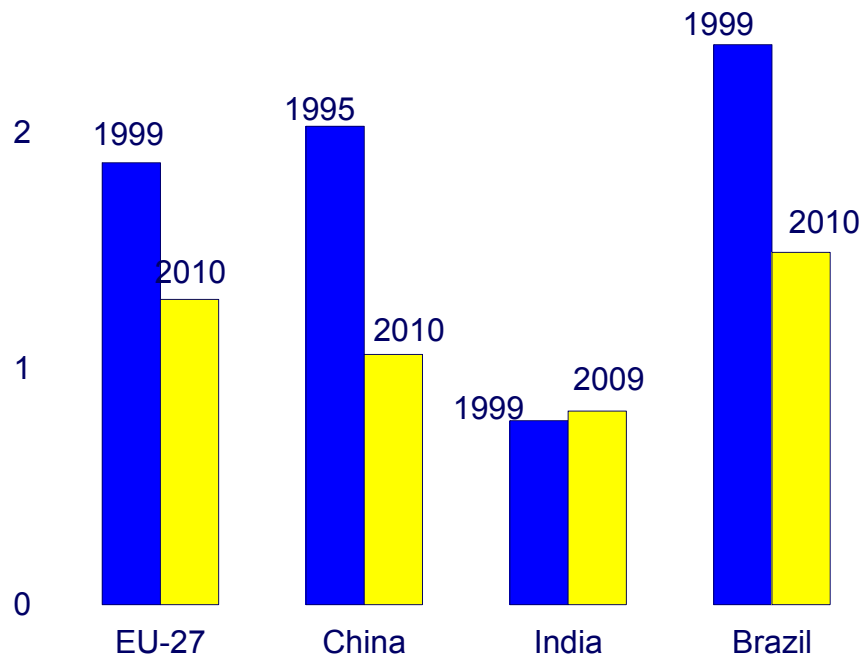
Source: Office of the Chief Economist, DFAIT  
Data: Statistics Canada



... but we have not done as well as others...

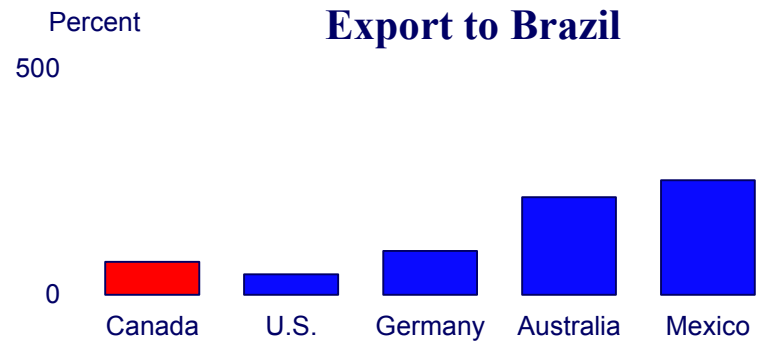
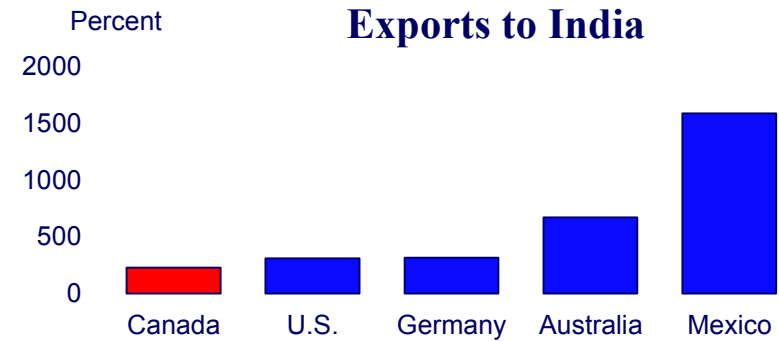
### Canadian Share of Imports – Key Markets –

Percent  
3



Data: National Statistical Agencies  
Source: Office of the Chief Economist, DFAIT

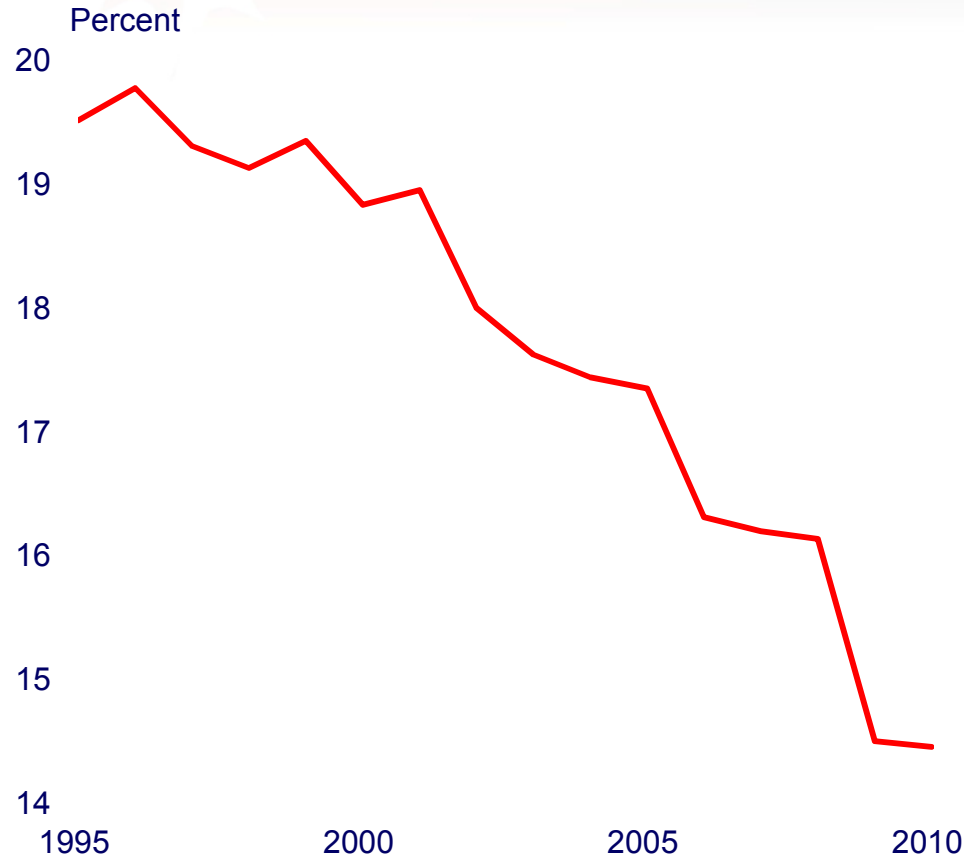
### Export growth, 2000-2010





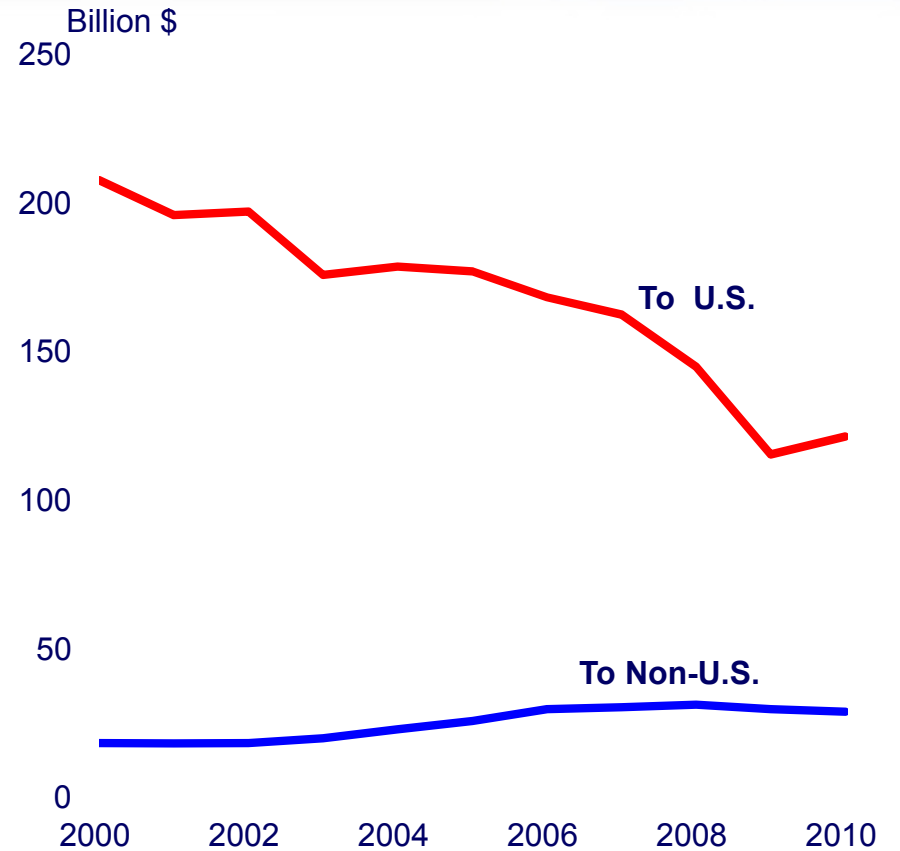
... and not well enough to offset our poor performance in the U.S.

### Canadian Share of US Merchandise Imports



Data: US Customs  
Source: Office of the Chief Economist, DFAIT

### Canadian Non-resource Related Exports



Data: Statistics Canada  
Source: Office of the Chief Economist, DFAIT



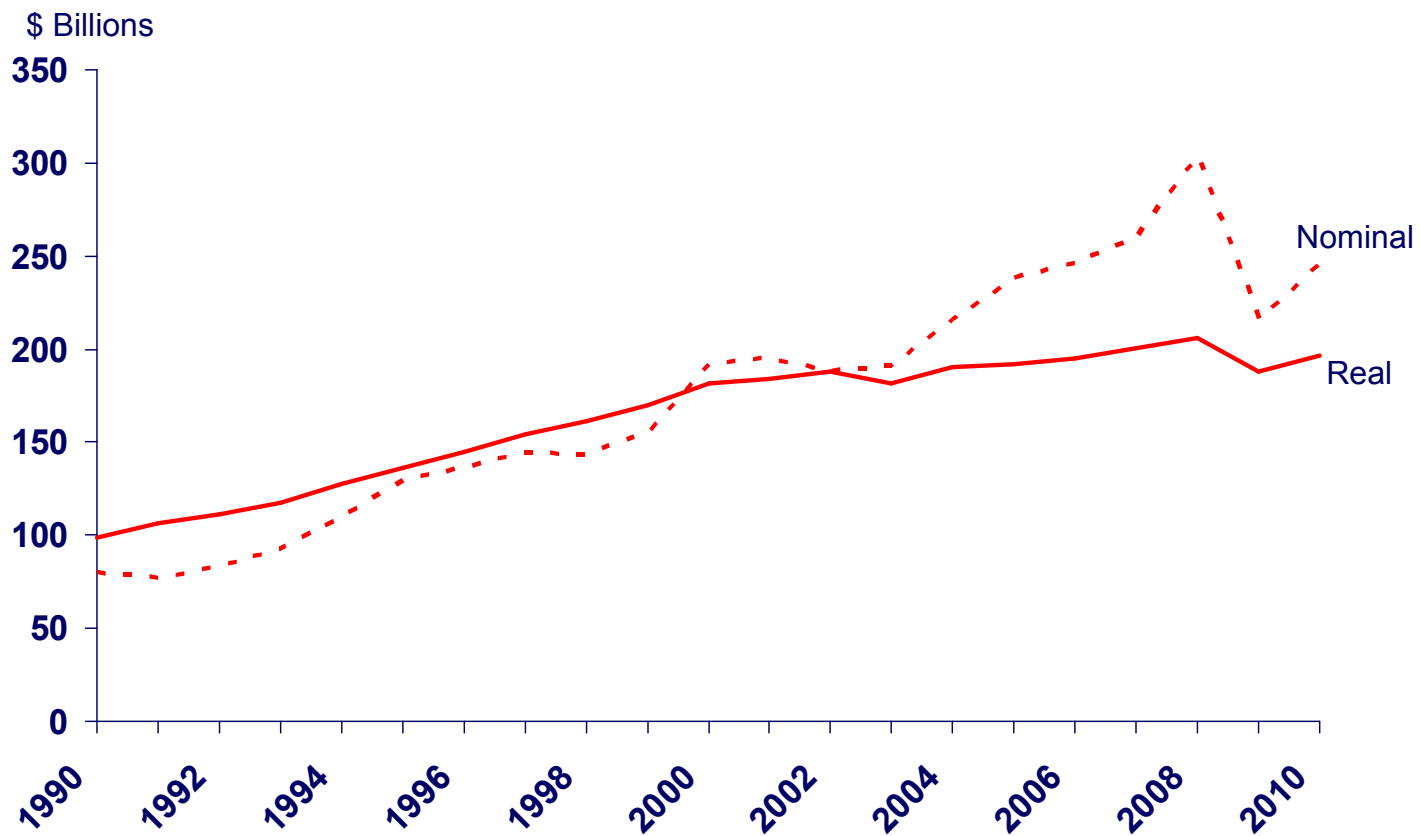
## **Challenges and Opportunities:**

### **Prices**

Increasing reliance on commodities and the strength of the Canadian dollar are hurting our competitiveness in the non-resource sector.

# Resource-based exports have benefited from strong prices...

## Canadian Resource-Related Exports



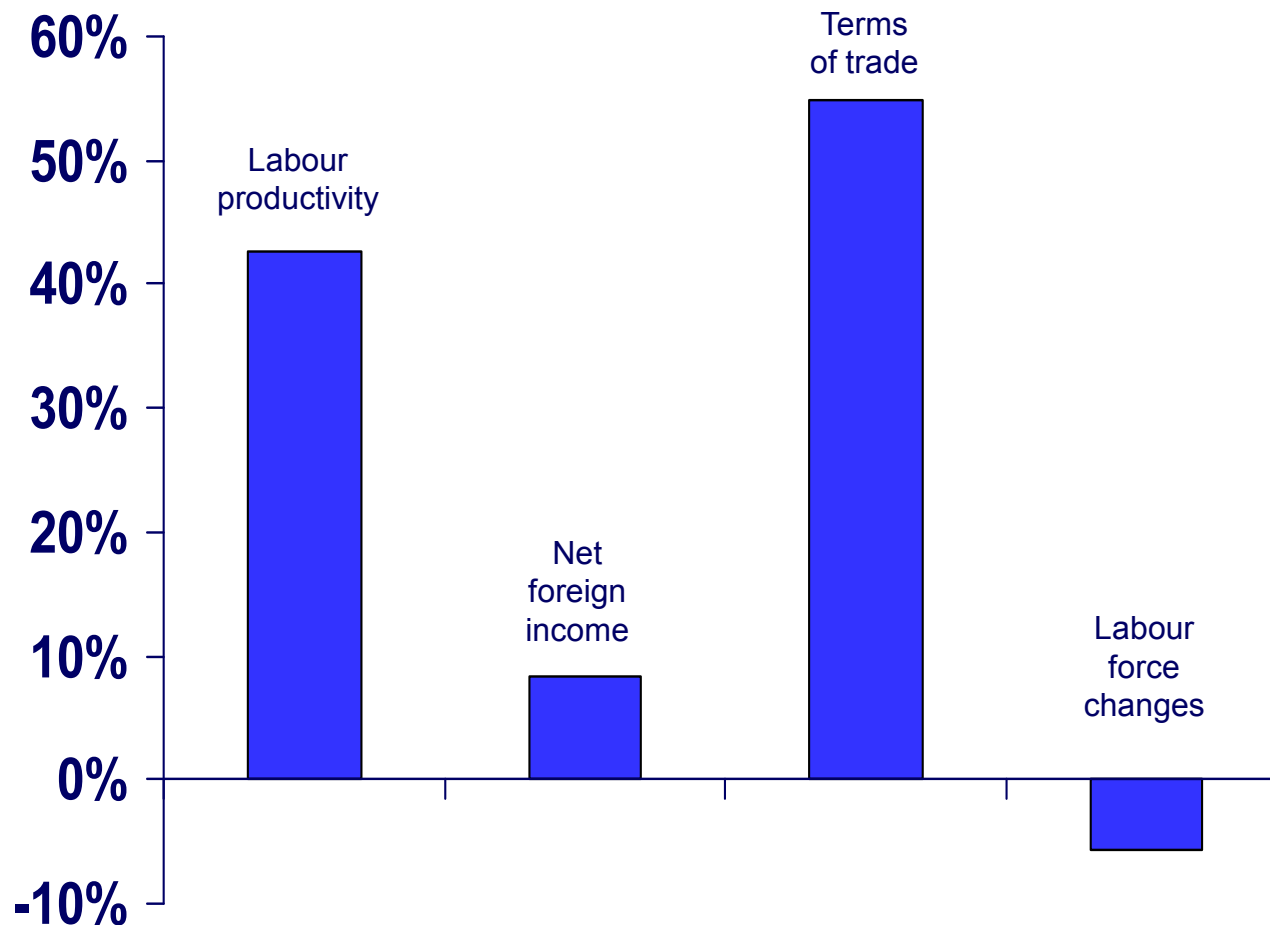
Data: Statistics Canada, real values are in chained 2002 dollars

Source: Office of the Chief Economist, DFAIT



... which has produced important gains for the Canadian economy

## Contributions to the Growth of Canadian Living Standards (2000-2009)



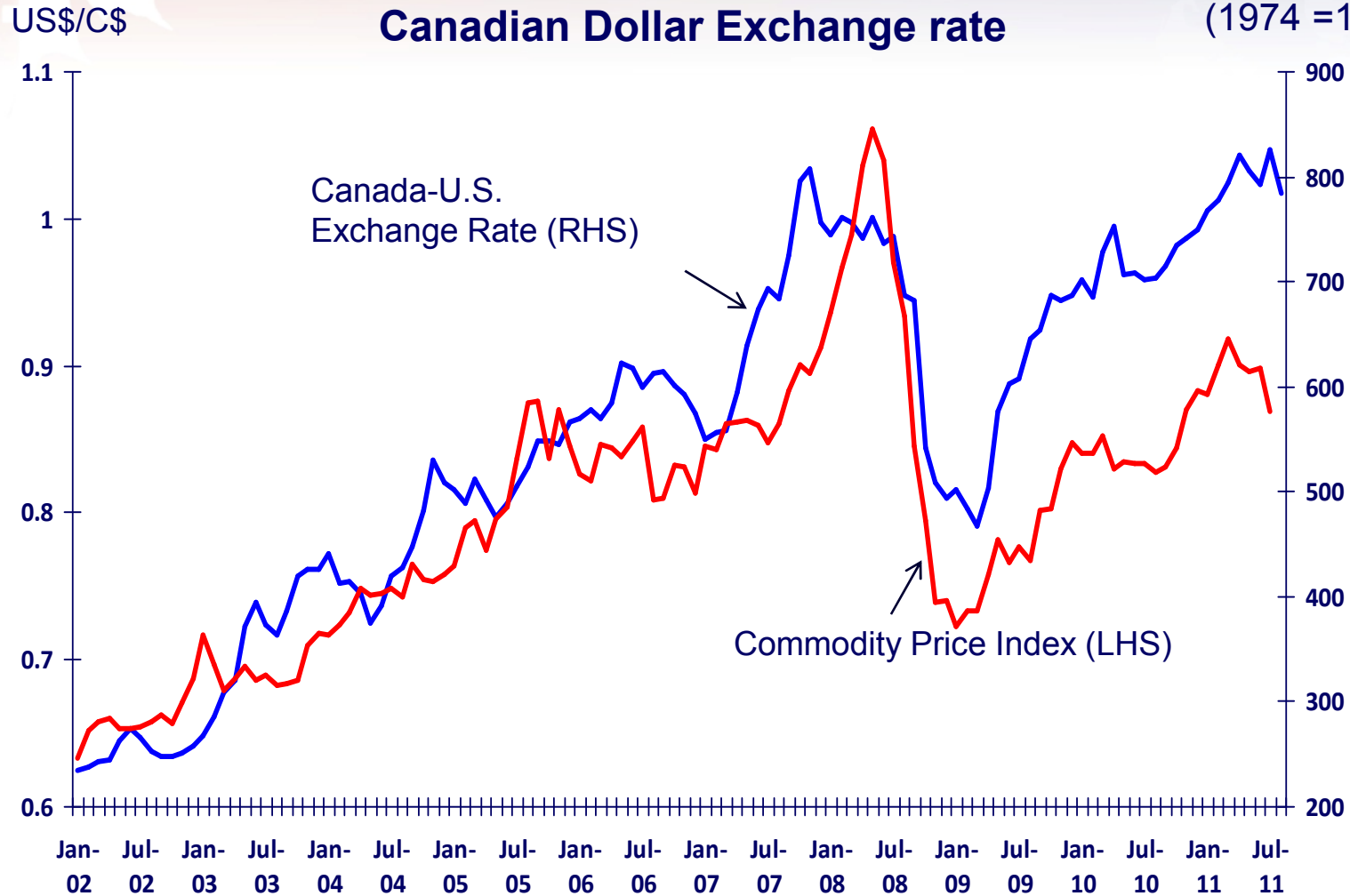
Source: Industry Canada



# But, has also contributed to a strengthening of the Canadian dollar...

## Commodity Price Index and the Canadian Dollar Exchange rate

Commodity Price Index (1974 = 100)

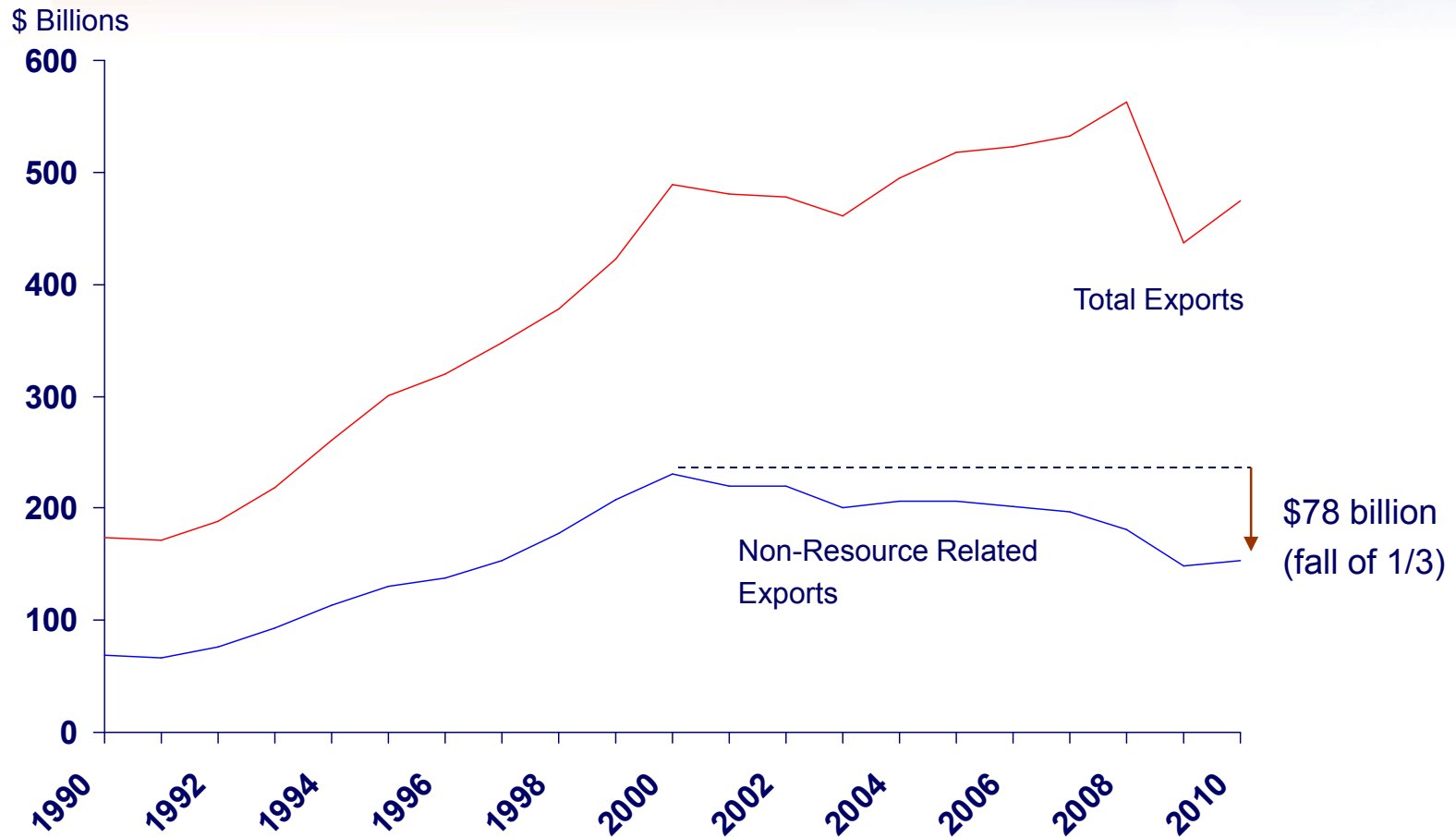


Data: Bank of Canada

Source: Office of the Chief Economist, DFAIT

...which has hurt non-resource sectors

## Canadian Goods and Services Exports



Data: Statistics Canada

Source: Office of the Chief Economist, DFAIT



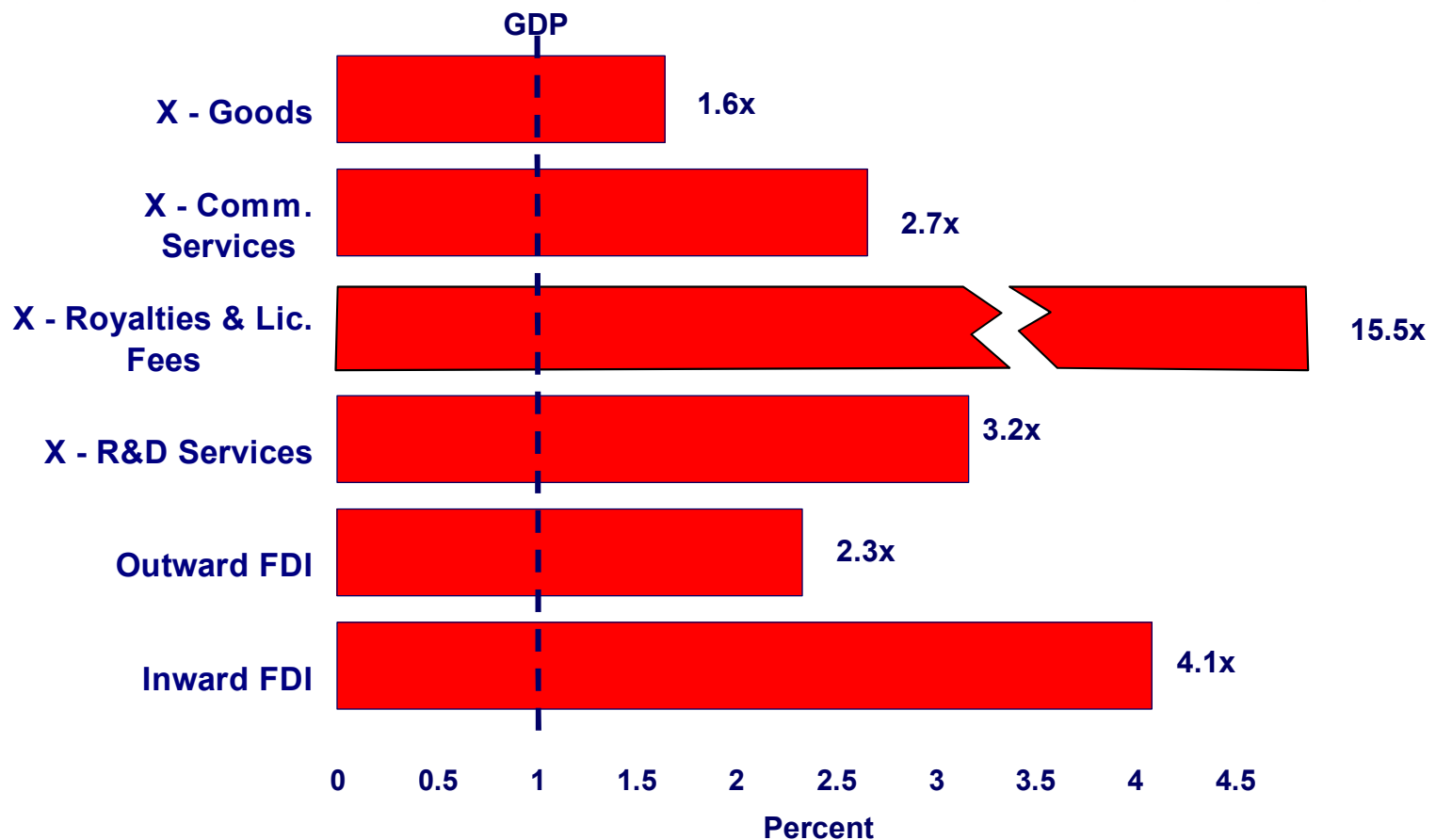
## **Challenges and Opportunities:**

# **The Changing Nature of** **International Trade**

In this era of global value chains, comparative advantages are increasingly determined at a more disaggregated level, where both innovation and price competitiveness are playing a central role... two dimensions where Canada is lagging its competitors.

# Trade is important, but other international flows are growing faster

## Growth in International Commerce Relative to Canadian GDP, 1990-2008



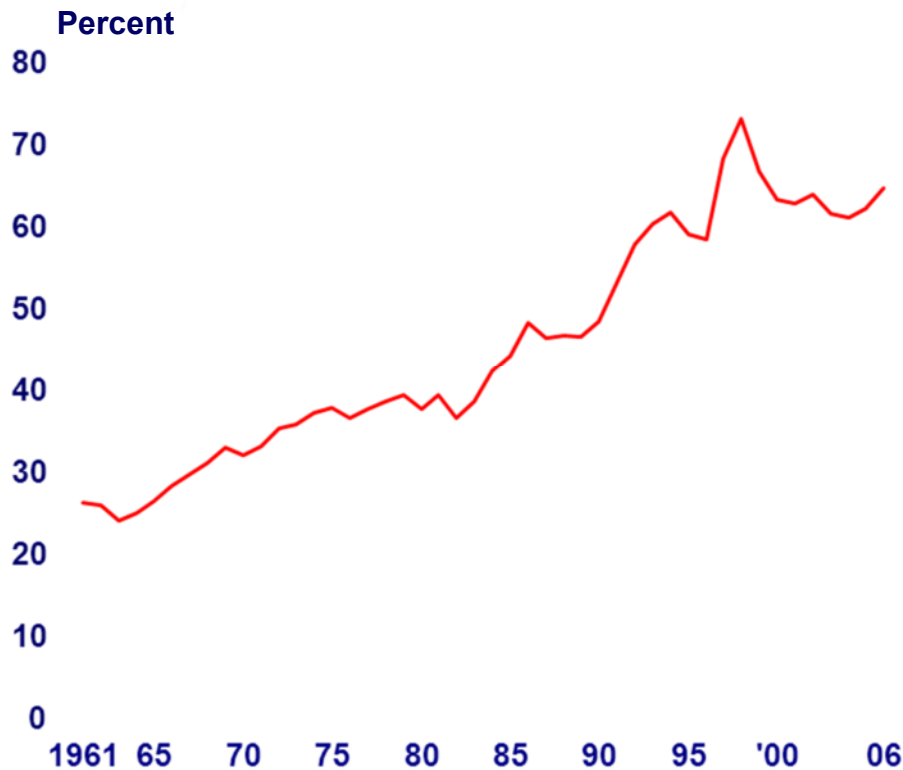
Data: Statistics Canada  
Source: Office of the Chief Economist, DFAIT



# Data points to the growing importance of GVCs

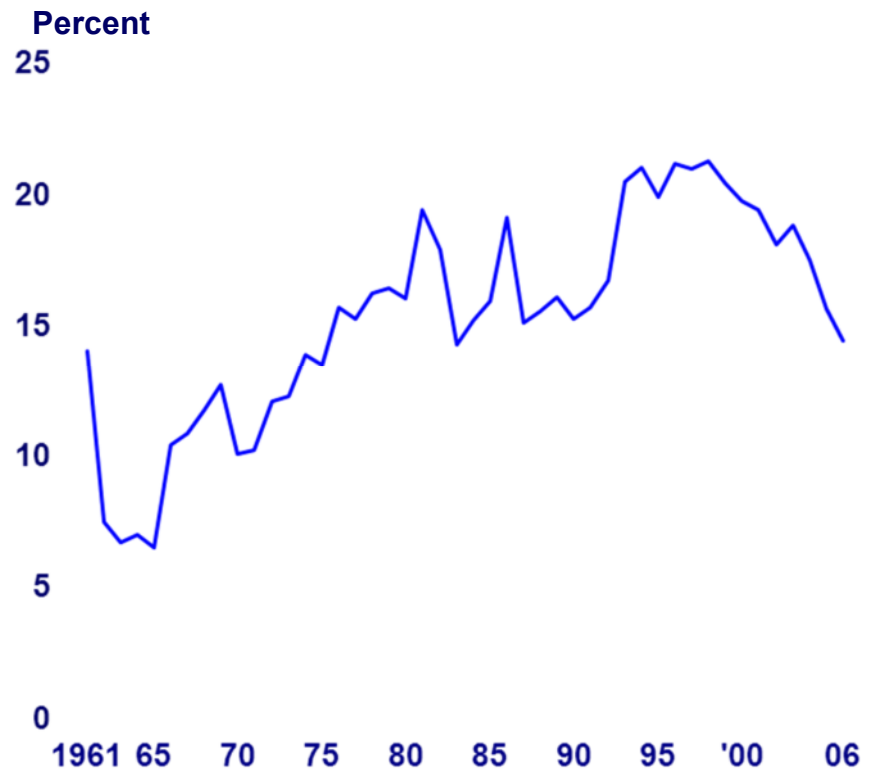
## Share of Imported Inputs

### Manufactured



Data: Statistics Canada  
Source: Office of the Chief Economist, DFAIT

### Professional Services



\* Engineering, scientific, accounting, legal, advertising software development and misc. services to business.  
Data: Statistics Canada  
Source: Office of the Chief Economist, DFAIT



# Trade Policy and Promotion



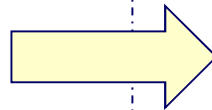
# We are adjusting our policies and programs to reflect the new environment

## THEN

## NOW

### Trade Negotiations

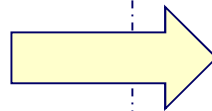
- Lowering tariffs on goods



- Facilitating investment, services and travel, reducing non-tariff barriers.

### Trade Promotion

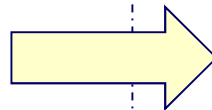
- Trade shows, export focus, advertising



- Connecting Canadian companies to customers and suppliers, CDIA assistance, GVC know-how, electronic platforms.

### Goals

- Increasing exports



- Productivity, innovation and improved standards of living.



## **We have made a great deal of progress on our trade policy agenda...**

- **U.S. remains Job 1 (2/3 of Canada's total trade in 2010)**
  - NAFTA remains central policy framework for North America, including Mexico.
  - Progress on shared vision on perimeter security and economic competitiveness.
  - Have been successful in managing issues as they arise.
- **Have completed a number of FTAs:**
  - EFTA, Columbia, Peru, Panama and Honduras
- **As well as other agreements:**
  - Air service agreements
  - FIPAs



**...but it will be a small number of deals in Europe and Asia that will be key**

## **Europe**

- **The EU is still the largest economy in the world.**
- **A Canada-EU agreement will be an important test for Canada's trade ambition.**

## **Asia**

- **We have yet to have an agreement in this fast-growing region.**
- **Korea will be an important test.**
- **India and Japan on the immediate horizon.**



## **Trade promotion is also important, the TCS contributes to economic growth...**

- **TCS clients who participated in the 2009 TCS survey estimated having sales valued at about \$4.2 billion in 2008-09 and attributed to the TCS a contribution of \$1.1 billion to these results.**
- **A peer-reviewed 2008 study conducted by DFAIT Chief Economist demonstrated that every dollar spent on the TCS results in \$27 dollars in increased merchandise exports.**
- **The same study shows that firms that access TCS services export on average 18 percent more than comparable firms that have not used these services and export to 36 percent more markets.**



## **... and helps SMEs internationalize**

- **Canadian business has been slow to take up opportunities in emerging economies.**
- **Canada's Trade Commissioner Service (TCS) supports Canadian companies in over 150 foreign and 18 Canadian cities, new offices in China, India and Brazil.**
- **Ongoing re-alignment of TCS resources towards emerging / fastest growing markets and non-traditional business lines (two-way investment, innovation and global value chains).**
- **The TCS assisted over 13,000 Canadian clients last year, most of them SMEs, a 10% increase year-over-year.**
- **But, at present only 2% (38,000) of Canadian companies export.**
- **Our dual challenge: Increase the number of Canadian businesses that export, while increasing the success of those that already export.**



# Knowledge Gaps



# Knowledge gaps

- **Global Value Chains**
  - Measurement –value added trade.
  - Are Canadian firms fully engaged in GVCs?
- **FDI**
  - What are the benefits to Canada?
- **CDIA**
  - What are the gains of CDIA returned to Canada?
- **Trade policy**
  - Domestic policy adjustments needed for bilateral and regional FTAs.
- **Currency**
- **“ The Case for Trade”**
  - Need to better inform Canadian public on benefits of trade and FTAs.



## Conclusion

- **Canada's trade recovery has been sluggish compared to the rest of the world.**
- **Yet trade is vital to the Canadian economy and Canadian living standards.**
- **Trade policy is expanding market access for Canadian exporters.**
- **The TCS contributes to economic growth through helping SMEs internationalize.**
- **The Conference Board of Canada can help fill important knowledge gaps.**
  - **Especially in spreading the message for the "Case for Trade".**