

Canada's Trade Policy Review

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Executive Summary

Canada continues to face the significant challenges associated with low exports, trade dependence on the United States, and lack of investment and competitiveness that all threaten Canada's prospect for economic growth at a time when Canada faces its worst economic downturn since the Second World War as a result of the COVID-19 pandemic.

To counter these challenges, this policy review proposes measures to invest in small and medium-sized enterprises (SMEs) as a key way to diversify exports and increase economic growth, while protecting millions of jobs.

These recommendations are directed to the Minister of Small Business, Export Promotion, and International Trade Diversification Mary Ng, who has the mandate to grow Canada's economy by focusing on expanding trade in the Asia-Pacific region and by mobilizing SMEs exports.

While Minister Ng has made some initial commitments to support SMEs in the face of these growing challenges, this review recommends increasing funding to CanExport and developing new trade diversification programs to increase SMEs exports, specifically targeting digital literacy and technology. Additionally, the Minister is to continue leading cross-departmental work with Global Affairs Canada and Innovation, Science and Economic Development to ensure all exporters are aware of the programs offered through the Trade Commissioner Service and Export Development Canada, as well as to strengthen regulatory policies to reduce trade barriers and protect Canadian industries from foreign ownership.

To support the core initiatives of the Minister, it is recommended GAC pursue other long-term objectives to ensure Canada is a strong competitor in international markets and increase trade engagements globally, such as with China and other key partners.

Abbreviations

APEC	Asia-Pacific Economic Cooperation
BDC	Business Development Bank of Canada
CDIA	Canadian Direct Investment Abroad
CETA	Comprehensive Economic and Trade Agreement
CFIB	Canadian Federation of Independent Businesses
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CUPE	Canadian Union of Public Employees
CUSMA	Canada-United States-Mexico Agreement
GAC	Global Affairs Canada
GDP	Gross Domestic Product
ISED	Innovation, Science and Economic Development
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organization
R&D	Research and development
RCEP	Regional Comprehensive Economic Partnership
SME	Small and medium-sized enterprises
USA	United States of America
WTO	World Trade Organization

Background, History and Policy Process

Problems Facing the Nation

Growing the Canadian economy requires a strategic approach to addressing the following key issues that, if overlooked, could hamper Canada's global competitiveness, growth in international trade and investment, and SMEs engagement in growing markets:

COVID-19 Economic Impact: Canada is facing a \$381.6 billion deficit as COVID-19 pandemic spending continues to grow.¹ The average contribution of SMEs to GDP over the 2011-2015 period was 49.4% in the goods-producing sector and 56.1% in the services-producing sector.² The COVID-19 pandemic has impacted small business enterprises the most as they were more likely to see revenues down by 40% or more.³ The downturn in Canadian exports due to COVID-19 will have an impact on economic growth, Canadian competitiveness and investment. In March 2020, Canada's exports fell by 7.9% and imports were down by 8.4%.⁴

Barriers to Economic Growth: The Canadian economy relies heavily on international trade, however, tight government regulations could prevent SMEs from trade growth. Internal trade barriers between Canadian provinces affect transportation, food and alcohol products, procurement, and labour mobility, among many other areas. The total regulatory compliance cost to SMEs was \$4.76 billion in 2011.⁵ Any export diversification strategy will need to overcome trade barriers and create pathways to overseas markets for Canadian businesses.

Lack of Trade Diversification: Canada's trade dependence on the US is impacting economic growth as it is affected by the Buy America agenda and the protectionist sentiment in the United States.⁶ Canada's goods exports to the US climbed 5.4% to \$433 billion in 2018.⁷ This dependence on a single market has resulted in a lack of trade diversification and has hindered Canada's ability to create new agreements with non-US allies, such as China. Tensions with China affect Canada's canola, soybean, beef, cattle and pork exports, leading to a decline in Canadian exports to China by 16% in 2019.⁸ Energy is Canada's largest export to the United States, and the decline in crude oil prices led to a 21% decline in energy exports in March 2020.⁹

Lack of Investment and Competitiveness: The COVID-19 pandemic has weakened the economy and could make Canadian assets cheaper to buy. Foreign investment has dropped over the years, as many foreign-owned companies withdrew from the Alberta

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oil and gas sector.¹⁰ In April of this year, the government tightened rules on foreign investment, which may protect Canadian assets, but could also reduce foreign investment.¹¹

Past Policies and Critical Decisive Moments

Timeline	Past Policies/Critical Decisive Moments	Details
1990s-2000s	<p>Increased integration with the United States</p> <p>Team Canada-branded trade missions</p>	<p>The successful negotiation of the North American Free Trade Agreement and the September 11, 2001 attacks led to deeper integration of Canada-US relations with more security partnerships and agreements, leading to greater dependence on the US market.</p> <p>Prime Minister Jean Chretien also launched his Team Canada trade missions to India, Brazil, Chile, China, and Europe in an attempt to diversify exports.</p>
2011-2015	<p>Global Markets Action Plan and economy-first foreign policy</p>	<p>Stephen Harper launched the Global Markets Action Plan, an economy-first approach to foreign policy that focused on trade agreements with emerging markets.¹²</p> <p>This period sees an increase in trade deals and the negotiations of CETA and TPP.</p>
2017	<p>Progressive Trade Agenda</p>	<p>Justin Trudeau touts a progressive trade agenda in the renegotiations of NAFTA, hoping to include chapters on gender, environment, and indigenous issues.¹³</p> <p>Free trade talks with China fail as a</p>

		<p>result of disagreements over the progressive trade approach.¹⁴ The TPP is amended to include “comprehensive and progressive,” though Justin Trudeau is accused of snubbing other world leaders at the APEC Summit in Vietnam during these discussions.¹⁵</p>
<p>2018</p>	<p>Export Diversification Strategy</p>	<p>Hon. Jim Carr is appointed as the newly titled Minister of International Trade Diversification, with a mandate to continue ongoing trade discussions with Mercosur, the Pacific Alliance, ASEAN, China, and India, as well as develop and implement Canada’s Trade Diversification Strategy with a focus on the Asia-Pacific region.¹⁶ Progressive trade is not mentioned in the mandate letter.¹⁷</p> <p>The Fall Economic Statement invests \$1.1 billion over 6 years to increase Canada’s overseas exports by 50 percent by 2025.¹⁸</p> <p>NAFTA negotiations conclude in the new CUSMA, which includes a provision prohibiting new agreements with non-market countries (e.g. China).¹⁹</p>
<p>2020</p>	<p>Response to COVID-19 Regional Comprehensive Economic Agreement</p>	<p>In response to the COVID-19 pandemic impacting small businesses, Minister Ng announced new measures to help SMEs through the CanExport program with a focus on e-commerce and virtual business.²⁰</p> <p>As GAC continues to identify Asia-Pacific as a key region for exports, the RCEP is signed by 15</p>

		Asia Pacific countries, ²¹ including China, Japan and Australia.
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Trends and Indicators

Economic Growth: Canada's GDP in 2019 was 1.736 Trillion (Current US\$).²² Exports of goods and services as a percent of GDP in 2019 was 31.6%. Imports of goods and services as a percent of GDP was 33.3%²³. However, the COVID-19 pandemic has impacted small business enterprises the most as they faced a 9.4% decline in hours worked and a 2.1% decline in real output²⁴ (see Appendix A).

Low Trade with Emerging Markets: Though Canada's international trade has increased over the years, trade remains reliant on the US market and is on a meagre path of slow growth in Asia-Pacific markets.

In 2019, Canada's exports of goods and services were \$729 billion, up 2.2% from 2018²⁵ (see Appendix B). The average annual growth rate in Canadian goods exports to China was 6.6% in the last decade.²⁶ However, in 2019, Canadian goods exports to China experienced a 16% drop due to trade measures imposed by China.²⁷ Despite China being Canada's third-largest trade partner, they experienced the largest decline in goods exports in 2019.

Value of Canadian Goods Trade by Partner

	VALUE (\$B)	ANNUAL GROWTH	
		2019 (%)	AVERAGE 2010-2019 (%)
EXPORTS			
United States	443	2.5	4.6
European Union	50	7.7	3.3
China	24	-16	6.3
Japan	13	-2.8	3.2
Mexico	8.4	-12	2.5
South Korea	5.8	-5.9	4.3
India	5.0	13	9.8
Hong Kong	4.2	2.4	8.6
Other Countries	41	3.7	2.5
TOTAL	595	1.7	4.4
IMPORTS			
United States	392	0.3	4.7
European Union	66	4.2	5.6
China	47	1.1	6.6
Japan	12	-2.4	2.4
Mexico	20	-2.0	4.4
South Korea	8.5	2.4	6.8
India	4.1	4.1	10.8
Hong Kong	4.2	-1.5	-0.9
Other Countries	59	4.4	1.4
TOTAL	614	1.1	4.5

Figure 1
Source: Global Affairs Canada, *Canada's State of Trade 2020*

Decline in Trade Export Prices: In the last decade, Canada's situation has reversed. Goods imports prices now outpace goods exports prices due to the sharp decline in the export price of energy products that have yet to recover to its 2014 high.²⁸ In March 2020, Canada's top goods exports and energy exports declined 21% due to the drop in oil prices caused by the COVID-19 pandemic²⁹ which could continue to exacerbate Canada's decline in trade export prices.

Canadian Goods Trade Price Index (2010-2019)



Figure 2
Source: Global Affairs Canada, *Canada's State of Trade 2020*

Competitiveness and FDI: According to the Global Competitiveness Index 4.0, Canada fell by 0.3 points, losing two places since the 2018 assessment and is now ranked 14th out of 140 countries.³⁰ Canada’s declining competitiveness is attributed to its lower rankings in R&D (23rd) and mobile broadband infrastructure and usage (67th).³¹ In 2018, Canada was also found to have a 1.61 Foreign Direct Investment restrictiveness, higher than the OECD average of 0.064 and one of the most restrictive countries amongst OECD peers³² (See Appendix C.1). COVID-19 disruptions are estimated to cause a 50% decline in global FDI flows³³ (See Appendix C.2). The US remains Canada’s largest FDI source.

Canada’s CIDA and FDI Flows by Destination and Source (2019)

	LEVEL (\$B)	SHARE (%)		LEVEL (\$B)	SHARE (%)
CIDA BY DESTINATION COUNTRY			FDI BY SOURCE COUNTRY		
United States	37	36	United States	32	48
United Kingdom	7.6	7.5	Switzerland	7.8	12
Luxembourg	6.8	6.7	Netherlands	5.4	8.0
Switzerland	6.6	6.5	Cayman Islands	4.1	6.1
Cayman Islands	3.1	3.0	Luxembourg	3.1	4.7
Barbados	2.1	2.1	United Kingdom	2.6	3.8
Netherlands	1.8	1.8	Australia	2.3	3.4
France	1.8	1.7	France	1.9	2.8
Mexico	1.6	1.6	Brazil	1.5	2.2
Hong Kong	1.4	1.4	China	1.2	1.7
Germany	1.0	1.0	Barbados	0.4	0.6
China	0.6	0.6	Germany	0.4	0.6
Brazil	0.3	0.3	Japan	0.1	0.1
Japan	-0.1	-0.1	Mexico	0.0	0.0
Australia	-1.0	-1.0	Hong Kong	-0.7	-1.0
All other countries	31	31	All other countries	5.2	7.8
TOTAL	102	100	TOTAL	67	100

Figure 3
Source: Global Affairs Canada, *Canada’s State of Trade 2020*

Current Policies and Policy Alternatives

Current Policy	Details
Progressive / Inclusive Trade Agenda	● Following the ratification of CETA, the Trudeau government began implementing a progressive trade agenda, seeking to include chapters on gender, environment, and indigenous issues during the NAFTA

	<p>renegotiations, the CPTPP discussions, and all other trade talks.</p> <ul style="list-style-type: none"> ● After a series of failed trade talks with China and India, the government began using the term “inclusive” instead³⁴ and mandated Minister Ng to pursue agreements that will benefit the middle class.³⁵
Export Diversification Strategy	<ul style="list-style-type: none"> ● The government invested \$1.1 billion in the Export Diversification Strategy to increase exports to the Asia-Pacific region as a response to Canada’s dependence on the US market.³⁶ Though this strategy was targeted at increasing exports by 50% by 2025, that goal is not in the Minister of International Trade’s mandate letter.
CanExport and Small Business Export Promotion	<ul style="list-style-type: none"> ● Minister Ng is mandated to mobilize exports of SMEs and maximize trade promotion through the Trade Commissioner Service and CanExport³⁷ (Appendix D). ● Due to the COVID-19 pandemic, the number of SME exporters dropped 10.7% in March 2020.³⁸ According to Canada’s State of Trade 2020, Canadian exporters and importers are underutilizing CETA³⁹.
Engagement with China	<ul style="list-style-type: none"> ● On June 19, 2020, former diplomats and government officials signed a letter to Justin Trudeau, calling on him to release Meng Wanzhou and re-establish ties with China and redefine Canada’s strategic approach to the economic superpower. ● Despite tense relations between the United States and China, Canada should seek to build trade ties that would benefit the economy in the Asia-Pacific region, especially as Canada is not part of the RCEP.
Reduce Interprovincial Trade Barriers	<ul style="list-style-type: none"> ● The International Monetary Fund (IMF) estimates that eliminating internal trade barriers would increase GDP growth by 4% and could increase Canadian competitiveness and foreign investment.⁴⁰
Increase Competitiveness	<ul style="list-style-type: none"> ● In their pre-budget consultation submission, the Canadian Chamber of Commerce proposed increased

through Innovation	trade-enabling infrastructure and climate-resilient infrastructure to increase competitiveness and grow investment. ⁴¹ Currently, Canada spends only 1.6% of GDP on R&D, below the OECD average of 2%.
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Policy Analysis

Interests and Values

Canada is referred to as a “trading nation”⁴² with strong interests in growing trade relationships to ensure the prosperity of the nation. The government is committed to upholding liberal international values to shape a rules-based global trading system that reflects an inclusive and progressive approach and benefits Canadian businesses.⁴³

Goals and Objectives

The government must continue to pursue efforts to maximize SME overseas exports, grow trade diversification, and protect Canadian assets. Minister Ng is mandated to lead the export mobilization of SMEs and support Canadian companies facing commercial or trade disputes. The 2018 Fall Economic Statement allocated \$1.1 billion for various initiatives to support trade diversification strategies with a goal of increasing exports by 50 percent by 2025 with a specific focus on the Asia-Pacific region⁴⁴ (see Appendix E). The government aims to raise net-benefit review thresholds and to streamline the approach to reviews of investments in public health and cultural businesses under the Investment Canada Act (see Appendix F)⁴⁵.

Stakeholders, Allies and Detractors

Stakeholder	Interests and Relationship to Policy
SMEs	<ul style="list-style-type: none"> ● Interests access to overseas markets, the removal of interprovincial trade barriers, assistance for SMEs to digitize and innovate⁴⁶ ● Ally for establishment of trade offices abroad,

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	increased trade missions, enhancing interprovincial and global trade ⁴⁷ , increasing assistance for SMEs
Business groups (Canadian Chamber of Commerce, Business Council of Canada, CFIB, Shopify, Ethno cultural Chambers of Commerce)	<ul style="list-style-type: none"> ● Interests: Improving Canadian business competitiveness, government investment in innovation and R&D⁴⁸ ● Ally for increased trade agreements, enhancing interprovincial trade,⁴⁹ increasing assistance for SMEs and policy improvements to the Investment Canada Act⁵⁰
Canadian Labour Groups (UNIFOR, CUPE, Canadian Labour Congress, Council of Canadians)	<ul style="list-style-type: none"> ● Interests: Strengthen labour and environmental protections,⁵¹ protect key Canadian industries (auto and dairy)⁵² ● Detractor for trade agreements without strong labour and environmental protections, and CUSMA concessions on dairy imports⁵³
Federal Opposition Parties	<ul style="list-style-type: none"> ● Conservative Party of Canada <ul style="list-style-type: none"> ○ Interests: diversify trading partners, supporting small businesses and reducing trade barriers for key Canadian industries (e.g. auto).⁵⁴ ○ Detractor for trade agreements or engagement with China ● NDP <ul style="list-style-type: none"> ○ Interests: The NDP urges Canada to more strongly defend dairy, poultry and other agricultural industries.⁵⁵ ○ Detractor for trade agreements that do not include strong chapters on gender, rights of Indigenous peoples and environmental protections
Sub-National Governments (Provinces, territories and municipalities)	<ul style="list-style-type: none"> ● Interests: Canadian provinces and cities already hold trade offices around the world and are eager to continue to be deeply involved in developing trade relationships abroad that would benefit local businesses.

	○ Ally for increased trade missions to Asia and trade agreements that promote SMEs exports and growth.
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Programmatic Needs

Federal-Provincial Consultations: Provinces should be consulted to make changes to interprovincial trade barriers and form more partnerships to increase investment.

Departmental Resources: The government's Main Estimates allocate \$381 million to financial resources for Trade and Investment in 2020-2021. There is a planned reduction to \$363 million in 2021 and 2022. Global Affairs Canada will require adequate resources to carry out missions to priority markets and help Canadian businesses benefit from free trade agreements.

Regulatory Changes: More harmonized regulations across Canada are required to increase internal trade and attract more investors.

Public Opinion Research: The federal government should conduct public opinion research and surveys to ensure exporters are aware of all programs being offered.

Recommendations and Implementation

Costed Options

Option 1: Canada should mobilize small and medium-sized enterprises (SMEs) and develop new trade diversification programs with increased funding to grow SMEs exports, specifically targeting digital literacy and technology.

According to Canada's 2019 State of Trade report, SMEs account for 99.8% of all businesses, but only 12% of SMEs export outside of Canada⁵⁶. Increased exports by SMEs could help Canada achieve the goal of increasing exports by 50% by 2025, however, SMEs currently reach fewer international markets as their exports are mostly concentrated in the United States⁵⁷ (Appendix G). To increase exports among SMEs,

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Canada must ensure trade programming focuses on digitization. A study by eBay Marketplaces has shown that 94% of technology-enabled SMEs exported to both the United States and other countries, and 83% of technology-enabled SMEs exported to two or more markets in their first year of operations.⁵⁸

Pro	Con	Outcome
Technology-enabled SMEs export more than non-technology enabled SMEs	SMEs make up only 25.6% of the total value of Canadian goods/exports and may not have an overall impact on trade growth	Increased trade as more SMEs are able to export their products
Increased trade diversification, as 30% of SMEs with digital capabilities export to 3 or more countries	Only 19% of SMEs are technologically advanced, and 90% of SMEs export to the United States. There may not be a huge impact on the trade diversification strategy	A higher amount of SMEs with digital capabilities will increase exports to markets outside of the United States
Opportunity to work with stakeholders to encourage SMEs to access CanExport programs or to increase digital services on their own	This will require consultations with stakeholders and possible changes to the program	More SMEs will be aware of the programming offered by the Government of Canada to help improve exports

Option 2: Canada should increase key trade engagements with its global partners to diversify Canada’s trade portfolio, enhance SMEs access to foreign markets, and improve Canada’s ability for economic growth.

Global Affairs Canada should collaborate with provinces, territories and municipalities in increasing overseas trade missions to key regions, focusing on China and the wider Asia-Pacific region. An emphasis should be put on increasing the participation of Canadian SMEs, business associations, ethno-cultural chambers of commerce, indigenous peoples, labour unions, and other equity-seeking groups in trade missions and trade agreement consultations.

Pro	Con	Outcome
Increased trade engagement with non-US partners, especially in the Asia-Pacific region, allows Canada to diversify its trade portfolio, reduce dependence on the US market, and to reduce economic risks through potential trade deals ⁵⁹ , including the Canada-Pacific Alliance Free Trade Agreement and a Canada-ASEAN Free Trade Agreement	Other emerging markets also require Canada's engagement (e.g. South Africa and Brazil) ⁶⁰ however, limited departmental resources could result in them being neglected	A more focused approach will allow for Canada to ensure high-quality international engagements are sustained for Canada's most important economic partners
Access to a larger global market, as Asia is estimated to account for 40% of global middle-class consumption by 2030 ⁶¹	Trade deals take years to negotiate and will not show economic benefits until the agreement is finalized.	Promoting Canadian SMEs in Asia-Pacific will create significant economic gains for businesses and lower dependence on the US market
Restarting free trade talks with China and India to promote export diversification	The trade talks failed before due to Canada's attempts to blend economic and social policy. Tense relations with China may hinder attempts at re-engaging in free trade discussions	Successful free trade talks could increase economic growth and decrease dependence on the United States market
Participation of immigrant entrepreneurs with cultural competencies and technical knowledge can aid with expansion to new markets in their country of origin ⁶²	Ethno-cultural chambers of commerce have limited resources which restricts their scope of action ⁶³	Combining knowledge of markets, products, culture and language increases ability to expand trade activity to new markets

Option 3: Canada should strengthen regulatory policies to protect Canadian industries from foreign ownership

Declines in valuations of Canadian businesses could lead to opportunistic investment behaviour by foreign enterprises and measures are needed to enhance scrutiny over potential takeovers. Canada should lower the thresholds for reviewing takeovers by all investors. Currently, multinational enterprises hold 67% of all assets in the Canadian economy. Since research and development require significant advancement to improve Canada's foreign direct investment levels, Canada should implement a new intellectual property strategy to ensure high-value assets remain in Canadian control, by increasing economic packages for key industries to prevent bankruptcy and protect companies from foreign takeovers.

Pro	Con	Outcome
Protecting key industries will prevent the adverse effects of acquisitions of Canadian companies, such as lower rates of productivity and competitiveness and negative effects on the Canadian economy in the longer term	Restricting foreign investment could negatively affect Canada's standing on the World Bank's Enabling Trade Index.	Key industries will remain protected from foreign owned enterprises, and Canada will be able to remain competitive and strengthen the economy in the longer term
Tightening rules and streamlining reviews under the Investment Canada Act would ensure foreign investors are scrutinized and measured for their benefits to the whole Canadian economy	Greater restrictions could be a disincentive for foreign direct investment in the Canadian economy	Ensures the continued growth of Canadian industries
Protecting key Canadian industries from bankruptcy and investing in Canadian-owned enterprises will ensure less	The government will be heavily scrutinized for allocating public funds to bail out private enterprises by	An increased amount of Canadian-made products

reliance on foreign procurement	opposition parties and business stakeholders	
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Recommendation, Impact and Evaluation

Implementing Option 1 is the most beneficial to Canada, as it has the greatest positive impact on economic growth, maintains Canadian competitiveness, and increases export diversification. As the Minister is mandated to increase exports by 50% by 2025, increased exports by SMEs could make this goal achievable. Increasing the number of SMEs that export would not only fulfil this goal, but would also have a positive impact on Canada’s economic growth and would help reduce Canada’s overdependence on oil and gas exports to the United States.⁶⁴

The economic shutdown due to COVID-19 led to a 30% decline in small business employment in April, and only 40% of small firms stayed open during the early stages of the pandemic.⁶⁵ While small business employment rebounded in November, 14% of businesses reported they were considering bankruptcy or winding down operations.⁶⁶ However, 87% of SMEs are confident their business will survive the pandemic.⁶⁷ As economic shutdowns force businesses to close their storefronts, investments in digitization can help small businesses remain resilient and allow them to continue to sell their products (See Appendix H). Companies that were selling online prior to the pandemic were less affected by the lockdown, which shows the importance of e-commerce in the current business environment.⁶⁸ Government investments in digitization will not only help SMEs grow their exports, but will help them stay resilient in the face of future economic lockdowns.

In 2018, only 19% of Canadian companies were digitally advanced, though SMEs who do embrace technology have higher sales, innovate more, and most significantly, export at a higher rate.⁶⁹ According to a recent PayPal study, 63% of digital small businesses export and a third of these businesses export to 3 or more countries.⁷⁰ As such, the government should invest in digital programming for SMEs in order to increase exports and Canada’s trade diversification. This will help Canada face the significant issues of lack of trade diversification, low economic growth and barriers to trade.

On November 3, International Trade Minister Mary Ng announced new actions through CanExport, including helping SMEs develop and expand their e-commerce presence by covering partial costs associated with online sales platforms and digital strategy

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consulting. This is a good start, however, funding to this program should be increased to allow for more significant digital programming and to encourage more firms to apply. The government should also expand funding eligibility to help cover the costs of website application, maintenance, and fees to online marketplaces and e-commerce platforms, such as Amazon or Shopify (See Appendix D). Of the small businesses who do not have a web presence, 30% cited a lack of technical barriers or maintenance costs as barriers.⁷¹ The government should invest in more training and digital consulting for SMEs, as 33% of entrepreneurs say they lack expertise and knowledge in online sales and 30% say they are unable to make their online sales profitable.⁷² The government should also target small SMEs with revenues under \$2 million, as they are less likely to prioritize increasing investment in technology and increasing online sales,⁷³ as well as target women entrepreneurs, as the pandemic has disproportionately affected women, and women entrepreneurs can often face barriers in accessing technology.⁷⁴ This will also help the government achieve its goal of an inclusive trade agenda.

As part of this recommendation, the government should continue to expand digital programming with stakeholders. In July, Minister Ng announced *Go Digital Canada*, a partnership with Shopify, to give entrepreneurs access to the platform for 90 days if they sign up before October 1, 2020.⁷⁵ More than 65,000 stores in Canada use the e-commerce company's platform⁷⁶ and this is a program that should be continued in the new year to ensure more SMEs are able to sell online and pursue more opportunities for growth.

To support the objectives of Option 1, many policy recommendations in Option 2 and Option 3 can be jointly pursued as a long-term strategy. Specifically, Option 2's recommendation for Canada to engage in trade talks with the Asia-Pacific region would increase SMEs access to those markets. Technology-enabled SMEs reached an average of 19 different markets,⁷⁷ showing that increased investment in SMEs can help with Canada's trade diversification strategy. Increasing trade ties with Asia-Pacific countries through free trade agreements will give more opportunities to SMEs to increase their reach. Canada is currently left out of the world's largest trade agreement (RCEP), and this should be a motivation to increase bilateral ties with Asia-Pacific countries Canada does not have a free trade agreement with already. The government should also pursue Option 2's recommendation to engage with diaspora business communities. As well, Option 3's recommendation to build stronger regulations in the *Investment Canada Act* and support for key Canadian industries would help SMEs innovate and protect their intellectual property.

There are a number of key programmatic needs that will need to be implemented to ensure the success of this recommendation. [Federal-provincial consultations](#) should be undertaken to capitalize on the export relationships provinces currently have with target

markets. There are currently 33 provincial offices in India and China, and 41 throughout the rest of the globe.⁷⁸ Provinces can mobilize these trade offices to promote SMEs in these target markets.⁷⁹ The federal government should provide funding to provinces who do not currently have trade offices abroad, by splitting the cost of a mission or by appointing a provincial representative to Canadian offices abroad to increase pathways for SMEs to export abroad.

Adequate departmental resources are also required for the success of this recommendation. The government’s Main Estimates (2020-21) allocate \$381 million in budgetary spending for Global Affairs Canada’s resources for trade and investment, with a planned reduction to \$363 million in 2021 and 2022.⁸⁰ CanExport is allocated \$190 million currently and SMEs can access up to \$75,000 in funding (Appendix D). The government should continue to fund trade and investment planning without any reduction in the coming years. Minister Ng’s announcement to support SMEs through CanExport did not include any additional funding, and the government should increase funding beyond \$190 million to CanExport to carry out these new responsibilities. The 2018 program audit of CanExport shows that \$4.9 million of unspent funding was returned to Global Affairs Canada (Appendix D). The government should bolster the financial monitoring over this program to ensure all the allocated resources are going to SMEs.

Regulatory changes are also required to implement this recommendation. The federal government should work with provinces to reduce internal trade barriers and encourage SME trade by lowering shipping costs.⁸¹ The government should coordinate Export Development Canada, Business Development Bank of Canada and the Trade Commissioner Service through an explicit mandate to provide a more harmonized trade effort for SMEs⁸² and ensure all the resources SMEs exporters need for success can be found on one main website or office.

Communication Strategies

Target	Message	Method
Canadian Media Institutions	Announce Canada’s new strategy to increase exports and trade diversification through SMEs to increase public awareness. This will be framed as a new trade strategy to increase the significance	The Minister can hold a press conference, conduct interviews and issue press releases to ensure the Canadian media is aware

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	and interest in the announcement	
Small and Medium Sized Enterprises	SMEs are the key audience for this policy and must be made aware that the Canadian government is targeting them to increase exports and improve trade diversification as part of a new trade strategy	The Minister should hold round-tables and visit with various SMEs. SMEs should be showcased in a variety of social media videos and with the Minister at any press conferences relating to the strategy
Stakeholders	<p>Stakeholders should be included as part of the strategy to increase SME exports. They can use their profile to ensure SMEs are aware the Canadian government is planning more investments in SMEs to increase exports and growth in emerging markets.</p> <p>Sub-national governments should be invited to participate in planning for future FTAs and global trade relations.</p>	<p>Stakeholders can be included in press conferences and press releases.</p> <p>The Minister should hold round-tables with sub-national government officials to discuss future trade plans, goals and objectives.</p>
Branding	Canada should brand itself as pursuing all government trade-related actions as part of an inclusive trade agenda.	Government communications and press releases should include "Inclusive Trade Agenda" and all announcements should be branded as part of this agenda

Timeline with Key Performance Indicators

Timeline	Key Performance Indicators
2021	<ul style="list-style-type: none"> ● Increase of SMEs who access CanExport funding for digital services ● Partnership with stakeholders to encourage SMEs to access funding and become aware of programs being offered ● Consultations with SMEs to see how digital services can be tailored to fit their needs ● Minister Ng should work with the Minister of ISED to complete a Regulatory Compliance Cost Report and Survey, as the previous survey was completed in 2011, nearly a decade ago. This will allow the government to see the impact of regulatory costs on SMEs and implement changes to regulations that are hindering economic growth.⁸³ ● Beginning in 2021, continue to monitor Canada's growth in GDP and Foreign Direct Investment each year
2022	<ul style="list-style-type: none"> ● Public opinion research to show if Canadian SMEs are aware of programming offered through CanExport and the Trade Commissioner Service regarding increasing exports of their products. A survey can also allow SMEs to voice their concerns about trade barriers and can show the government where to focus efforts to have the maximum impact on increasing trade. ● The government should conduct the Survey on Financing and Growth of Small and Medium Enterprises annually to track progress and monitor export growth. ● Measure SMEs and their exports to markets outside of the United States ● Conduct a gender-based analysis (GBA+ Analysis) to ensure women entrepreneurs are taking advantage of services being offered to increase SMEs exports and digitization. ● Increased trade missions (in person or virtual) to key markets in partnership with SMEs, provinces and other stakeholders
2025	<ul style="list-style-type: none"> ● Success will be measured by the mandated goal of an increase in exports by 50% by 2025 ● Canada to improve in Herfindahl-Hirschman Index (HHI) measure on export diversification and concentration ● Canada to increase ranking on the World Economic Forum's Trade Openness, World Bank FDI global ranking and standing on the

World Bank Enabling Trade Index

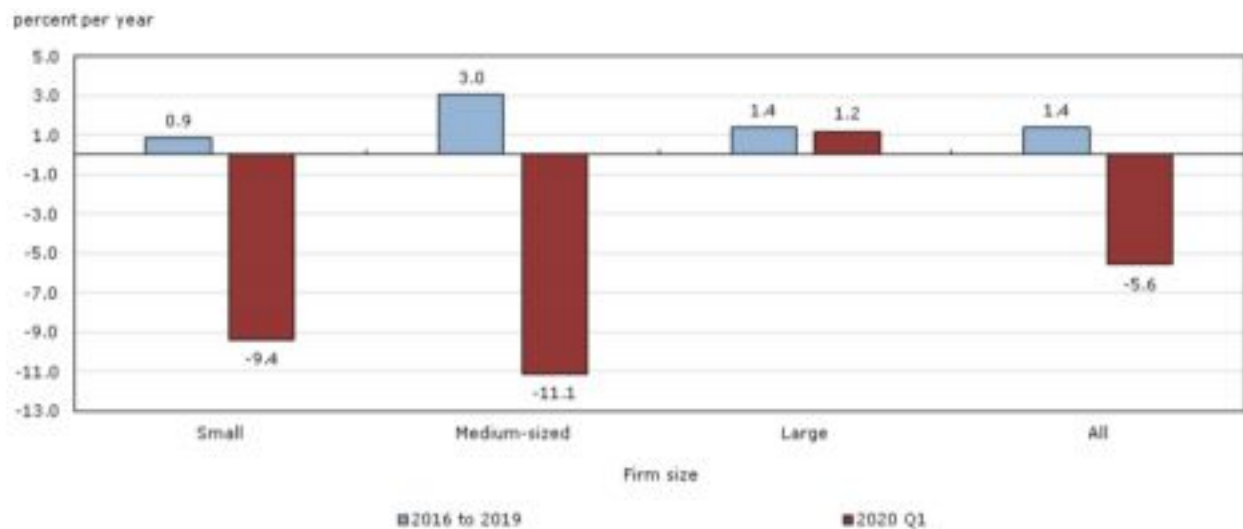
- Canada to surpass 2019 spending of \$35.5 billion on research and development (R&D) and meet the OECD average of 2.4% of GDP spending of R&D expenditures

Appendices

Appendix A: Economic Impact of the COVID-19 Pandemic on SME Productivity

According to data by Statistics Canada, small firms were the hardest hit by the COVID-19 pandemic in the first quarter of 2020 due to a significant decline in hours worked for small firms and real output:

Growth in Hours Worked by Firm Size in the Business Sector, 2016 to 2020 Q1



Note: The growth rate for 2020 Q1 is calculated as the percentage change between 2020 Q1 and the average of the four quarters of 2019.
Source: Statistics Canada, author's tabulation.

Figure 4

Source: Statistics Canada, "Economic Impact of the COVID-19 Pandemic on Canadian Businesses across Firm Size Classes", accessed November 30, 2020. <https://www150.statcan.gc.ca/n1/pub/11-626-x/11-626-x2020017-eng.htm>.

Growth in Real Output by Firm Size in the Business Sector, 2016 to 2020 Q1

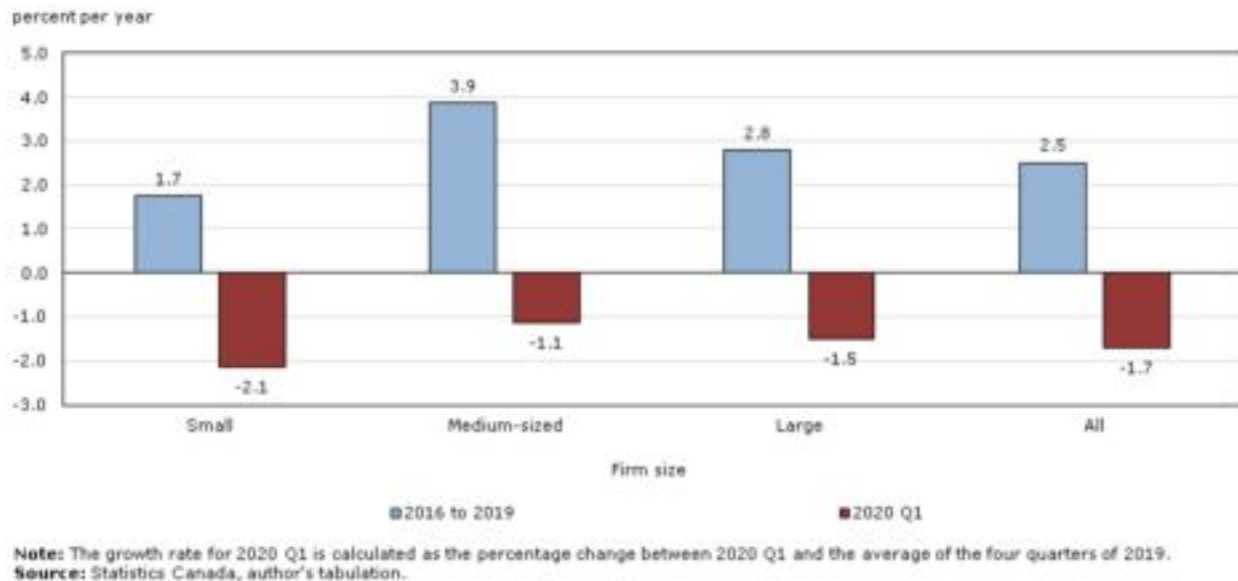


Figure 5

Source: Statistics Canada, "Economic Impact of the COVID-19 Pandemic on Canadian Businesses across Firm Size Classes", accessed November 30, 2020. <https://www150.statcan.gc.ca/n1/pub/11-626-x/11-626-x2020017-eng.htm>.

Appendix B: Canada's Exports of Goods and Services

Growth in imports of goods and services in 2019 is weak compared to the 4.5% annual average. Additionally, growth in service imports is less volatile than growth in goods imports.⁸⁴

Canadian Exports and Imports

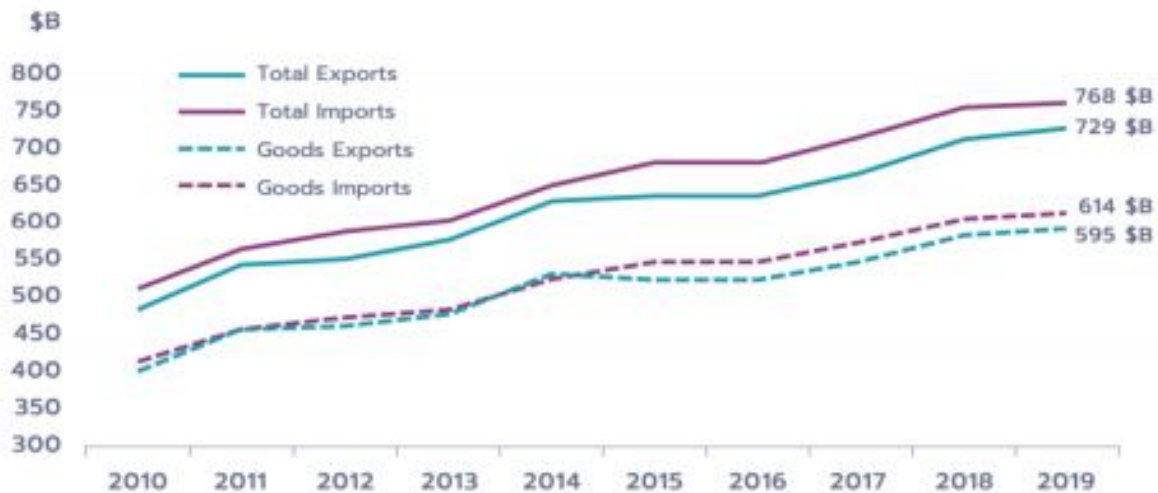


Figure 6

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Source: Source: Canada's State of Trade 2020, Figure 1.2. Retrieved on November 27, 2020.

Appendix C.1: World FDI Restrictiveness

Canada's FDI Restrictiveness has increased in the last decade.

FDI Restrictiveness

Total, 0 = open; 1 = closed, 2003 – 2019

	2003	2006	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Canada	0.263	0.263	0.175	0.175	0.173	0.173	0.173	0.166	0.166	0.162	0.161	0.161
OECD Average	0.098	0.082	0.066	0.065	0.065	0.064	0.064	0.064	0.064	0.064	0.064	0.064
United States	0.089	0.089	0.089	0.089	0.089	0.089	0.089	0.089	0.089	0.089	0.089	0.089
United Kingdom	0.059	0.056	0.040	0.040	0.040	0.040	0.040	0.040	0.040	0.040	0.040	0.040
Australia	0.246	0.237	0.128	0.128	0.128	0.128	0.127	0.140	0.146	0.147	0.149	0.149

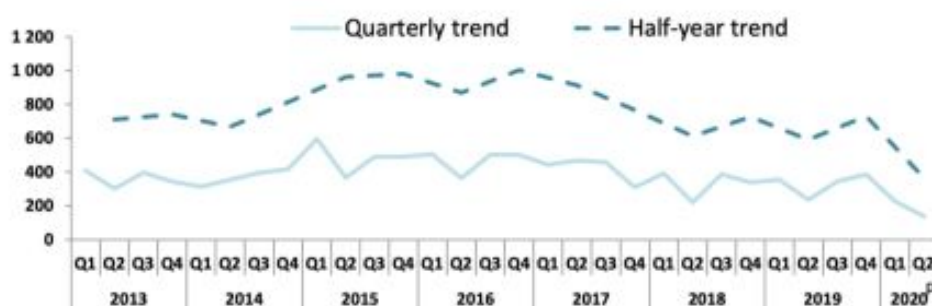
Figure 7

Source: OECD FDI Regulatory Restrictiveness Index, accessed November 29, 2020, <https://data.oecd.org/fdi/fdi-restrictiveness.htm>.

Appendix C.2: COVID-19 Disruptions of World FDI Flows

The COVID-19 disruptions significantly impacted inflows and outflows globally. FDI flows reportedly fell by 41% to USD 227 Billion in the first quarter of 2020 and by 39% to USD 137 billion in the second quarter of 2020.⁸⁵

Global FDI flows, Q1 2013-Q2 2020 (USD billion)



Notes: p: preliminary estimates.

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Figure 8

Source: OECD, FDI in Figures, 2. Accessed November 30, 2020.

<http://www.oecd.org/investment/investmentpolicy/FDI-in-Figures-October-2020.pdf>.

FDI earnings of selected countries, Q3 2019-Q2 2020

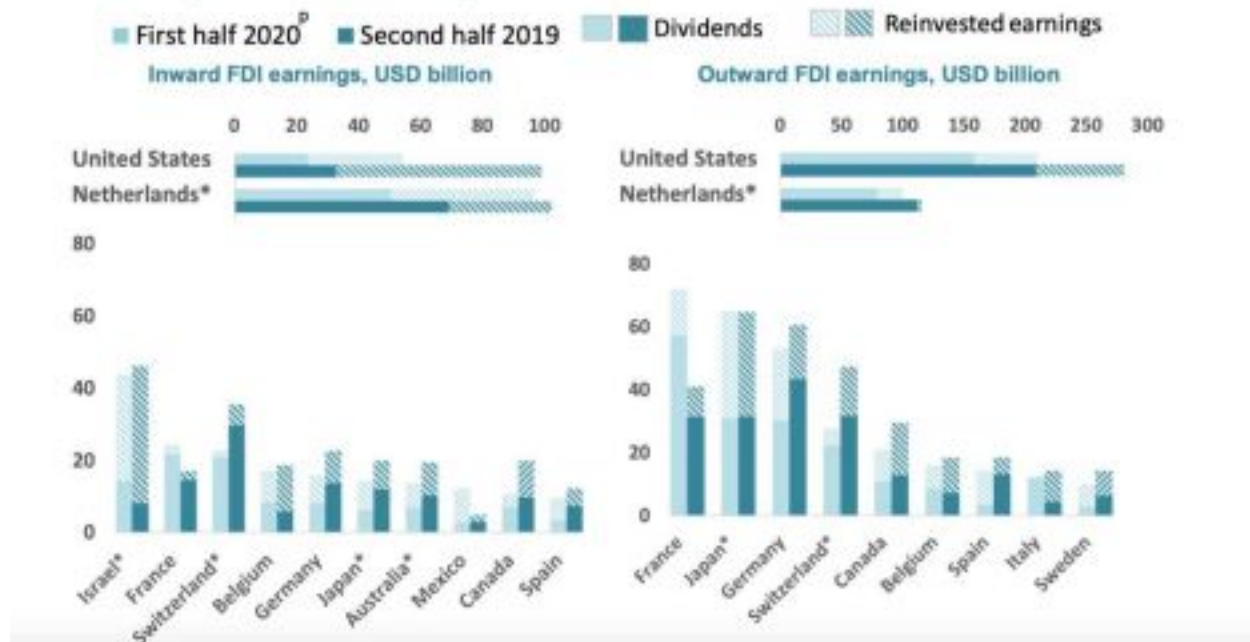


Figure 9

Source: OECD, FDI in Figures, 7. Accessed November 30, 2020.

Appendix D: CanExport

The government launched the CanExport SMEs program through the Trade Commissioner Service in 2016, allocating \$190 million in funding⁸⁶. This program provides SMEs with funding of up to \$75,000 for travel costs and export-related expenses⁸⁷. SMEs must make \$100,000 to \$100 million in revenue yearly to be eligible for the funding, and companies cannot already be significantly exporting to the market they are targeting and wish to receive funding for within the past 24 months⁸⁸. In the 2018 program audit, CanExport spending had been lower than budgeted:

CanExport Program Funding by Fiscal Year

Fiscal Year	# of Approved Projects	# of duly signed CAs	Program Disbursements			
			Operations and Maintenance (O&M)		Grants and Contributions (G&Cs)	
			Budgeted	Actual	Budgeted	Actual
FY2015-2016	27	27	\$761k	\$463k	\$2,000k	\$125k
FY2016-2017	597	579	\$761k	\$933k	\$13,354k	\$8,629k
Total	624	606	\$1,522k	\$1,396k	\$15,354k	\$8,754k

Figure 9

Source: Global Affairs Canada, "Audit of the CanExport Program- March 2018", accessed November 29, 2020.
https://www.international.gc.ca/gac-amc/publications/audits_verification/2018/audit_canexport.aspx?lang=eng

For the fiscal year 2016-2017, \$4.9 million of unspent funding was returned to GAC and was attributed to the fact that several recipients with project funding commitments did not submit their claims on time at year-end.⁸⁹ The audit then recommended the following: "The Assistant Deputy Minister, International Business Development, Investment, and Innovation and Chief Trade Commissioner, should increase the level of financial monitoring over Program disbursements and funding commitments."⁹⁰

Due to the travel restrictions from the COVID-19 pandemic, CanExport now helps with non-travel activities, like search engine optimization and virtual trade shows. SMEs can also be eligible for \$50,000 in funding for online advertising activities.⁹¹

There have been changes to the CanExport program since its initial launch in 2016 after consultation with the Canadian Chamber of Commerce.⁹² The eligibility criteria expanded earlier this year to include SMEs with up to 500 full-time employees.⁹³

As a response to the COVID-19 pandemic, Minister Ng announced new measures through the CanExport program to help SMEs expand their e-commerce presence, attend virtual trade shows, and access digital strategy advice.⁹⁴

Eligible expenses under CanExport include marketing on social media and e-commerce platforms, but costs related to Canadian operations, such as a Canadian website or software development fees, are not covered.⁹⁵ Fees to access online marketplaces, such as Amazon or Alibaba, or subscriptions to e-commerce platforms, such as Shopify, are also considered ineligible expenses.⁹⁶

Appendix E: Canada's 2025 Target for Trade Diversification

In order to meet Canada's 2025 target for trade diversification, Canada seeks to lower trade barriers through FTAs, get in early on fast-growing markets, diversify through the

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US, conduct digital trade, facilitate the growth of SMEs and target trade with key municipalities.⁹⁷ Though SMEs have great importance in Canada’s domestic market, they have participated very little in exporting:

Canadian SME Exports, 2017

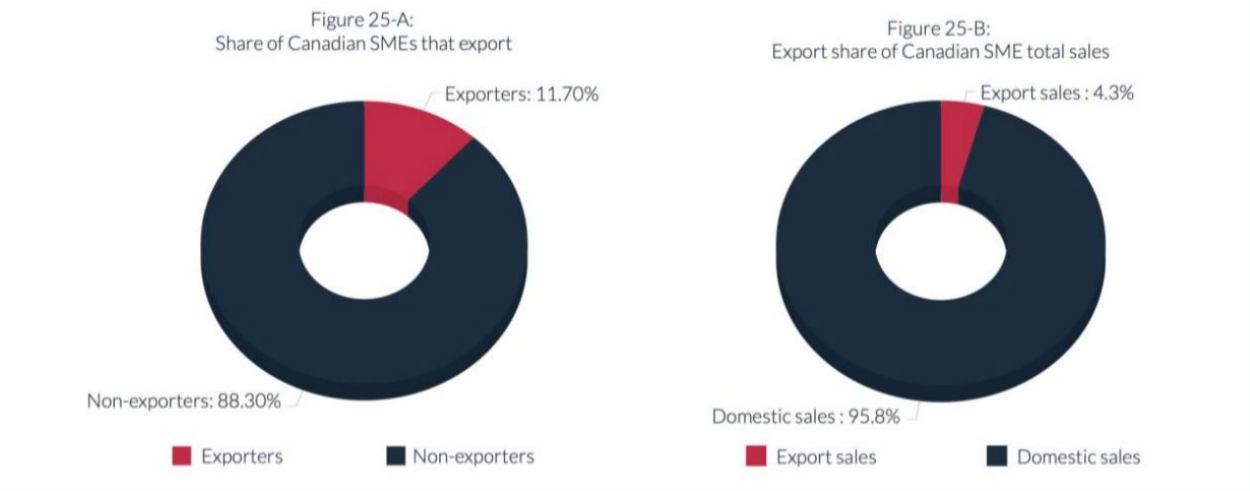


Figure 10
 Source: Global Affairs Canada, Canada’s State of Trade 2019, 124.
https://www.international.gc.ca/qac-amc/assets/pdfs/publications/State-of-Trade-2019_eng.pdf

Appendix F: Investment Canada Act

The Investment Canada Act is the government’s primary mechanism for reviewing foreign investment in Canada and serves two fundamental purposes: “to review significant acquisitions of control to ensure they are likely to be of net economic benefit to Canada and to review investments that could be injurious to national security.”⁹⁸

When any non-Canadian investor seeks to acquire control of an existing Canadian business valued at or above the set relevant threshold, they are required under the Act to have a net benefit review conducted.⁹⁹

The table below demonstrates investments by sector in 2018-2019:

Investments in Canada by Sector

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	Number of investments	Value of Investments (\$M)	
		Asset Value	Enterprise Value
Resources	40	\$1,601	\$10,052
Manufacturing	194	\$7,876	\$18,106
Wholesale and Retail Trades	126	\$1,846	\$6,686
Business and Services Industries	353	\$5,001	\$36,831
Other Services	249	\$24,921	\$13,058

Figure 11

Source: ISEDC, *Investment Canada Act Annual Report 2018-2019*, 10.

[https://www.ic.gc.ca/eic/site/ica-lic.nsf/vwapj/2018-19AnnualReport_eng.pdf/\\$file/2018-19AnnualReport_eng.pdf](https://www.ic.gc.ca/eic/site/ica-lic.nsf/vwapj/2018-19AnnualReport_eng.pdf/$file/2018-19AnnualReport_eng.pdf).

The top investors in Canadian businesses are from the US, the European Union and China:

Top Investors in Canada

	Number of investments	Value of Investments (\$M)	
		Asset Value	Enterprise Value
United States	564	\$36,469	\$66,396
European Union	230	\$2,074	\$11,423
China	36	\$1,457	\$210
India	22	\$9	\$23
Iran	19	\$3	\$2
Switzerland	15	\$721	\$872
Japan	14	\$154	\$237
Australia	12	\$1,598	\$1,329

Figure 12

Source: ISEDC, *Investment Canada Act Annual Report 2018-2019*, 11.

[https://www.ic.gc.ca/eic/site/ica-lic.nsf/vwapj/2018-19AnnualReport_eng.pdf/\\$file/2018-19AnnualReport_eng.pdf](https://www.ic.gc.ca/eic/site/ica-lic.nsf/vwapj/2018-19AnnualReport_eng.pdf/$file/2018-19AnnualReport_eng.pdf).

Appendix G: SMEs Exports

SMEs account for 99.8% of all businesses in the country, but only 12% of these companies export¹⁰⁰. Though SMEs make up 97.4% of the share of exporters, the share of the total value of exports is concentrated in large businesses (Table 1), as they make up 61% of Canada's manufacturing exports which is the main industry involved in the export of goods¹⁰¹ (Table 2). SMEs primarily contribute to the export of wholesale trade and other industries, which make up a smaller share of Canada's total value of exports¹⁰² (Table 3). SMEs exports are concentrated in the United States¹⁰³.

Contribution of SMEs to the Export of Goods by Number of Exporters and Value of Exports, Canada, 2017

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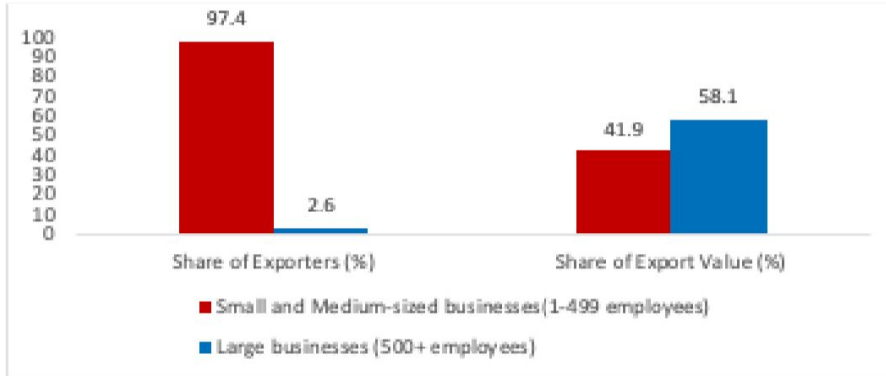


Figure 13

Source: Statistics Canada, Table 12-10-0094-01 – Trade in goods by exporter characteristics, by enterprise employment size and industry; and ISED calculations.

Main Industries Involved in the Export of Goods by Value of Exports, Canada, 2017

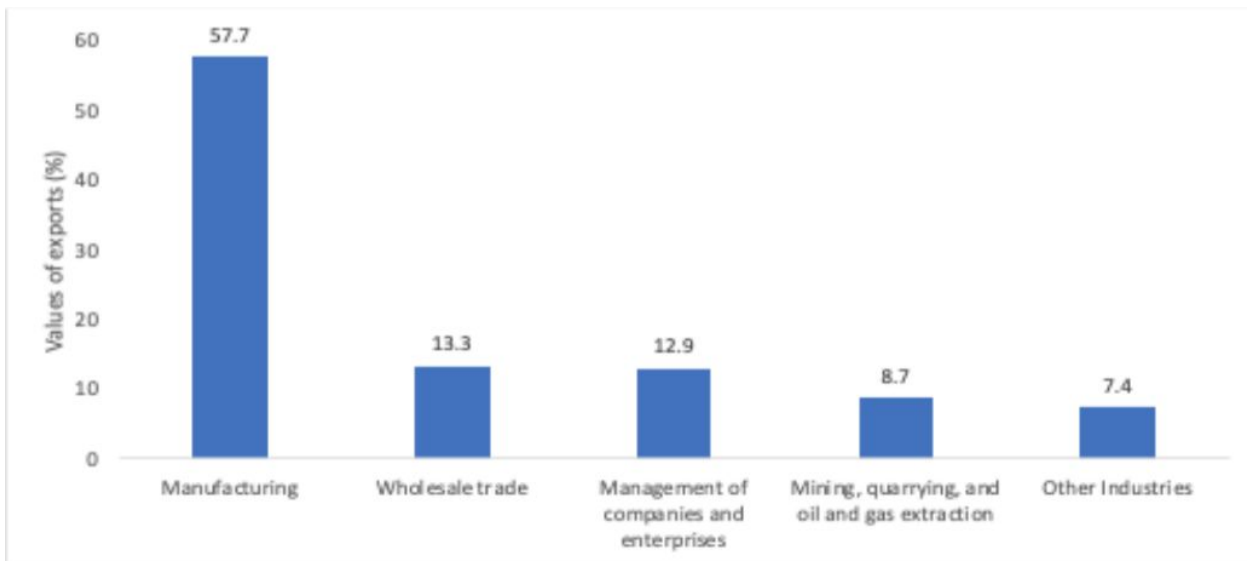


Figure 14

Source: Statistics Canada, Table 12-10-0094-01 – Trade in goods by exporter characteristics, by enterprise employment size and industry; and ISED calculations.

Contribution of SMEs to the Total Value of Exports by Industry, Canada, 2017

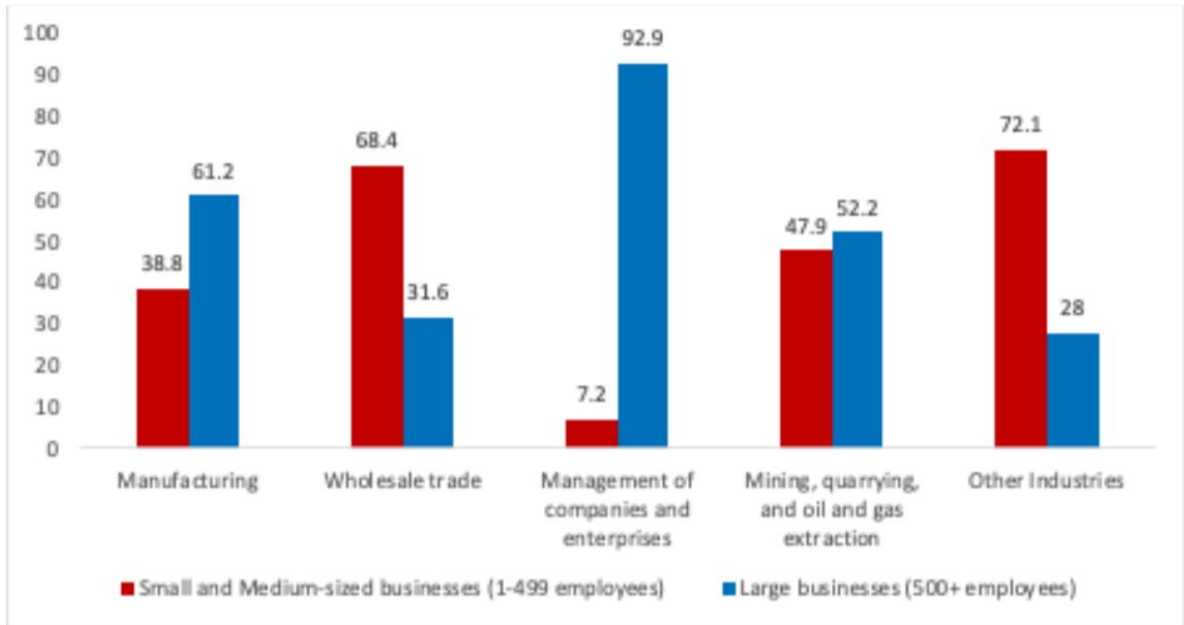


Figure 15

Source: Statistics Canada, Table 12-10-0094-01 – Trade in goods by exporter characteristics, by enterprise employment size and industry; and ISED calculations.

Appendix H: Digitization in the COVID-19 Pandemic

The COVID-19 pandemic forced businesses to shutter their doors and turn to online solutions to connect with customers and that trend is expected to continue.¹⁰⁴ According to the CFIB, 51% of business owners are going to rely more on digital communication in the coming year¹⁰⁵.

While 37% of businesses who sell to customers (B2C) increase the use of social networking platforms, there was no significant adoption of these tools by businesses who were not using these platforms prior to the pandemic.¹⁰⁶ Figure 16 shows the obstacles small business owners feel are preventing them from using digital communication to communicate with customers. Other reasons that have been cited by small business owners are lack of technical expertise and additional costs.¹⁰⁷

Views on Digital Communication Total Agree (% strongly agree/somewhat agree)

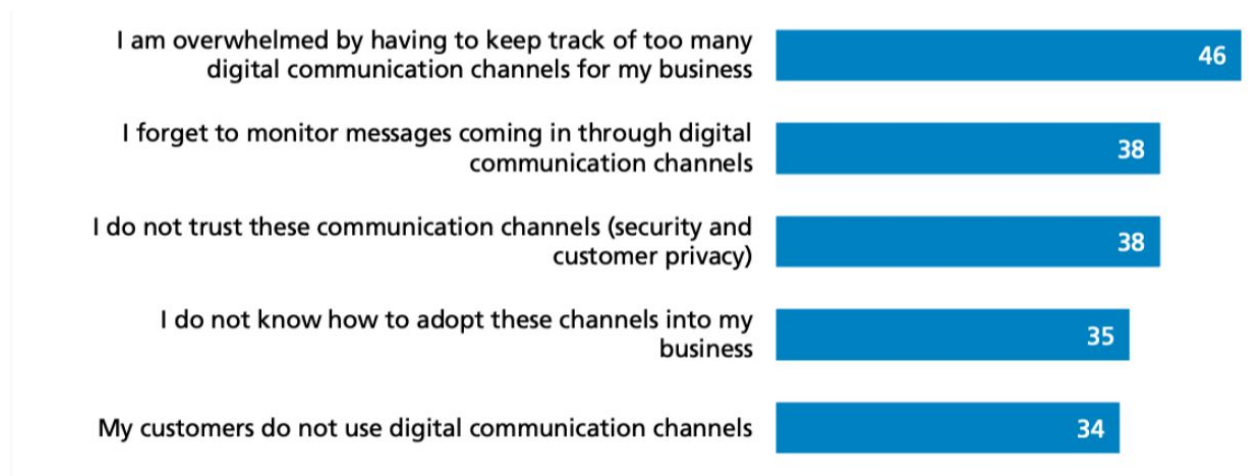


Figure 16

Source: CFIB: Transformation of Canada's Small Businesses Series - Connecting with Customers During the Pandemic.

While 76% of SMEs reported a decline in revenues, business owners are confident they will make it through the crisis, and 40% of businesses intend to increase their investment in technology.¹⁰⁸

Response of Entrepreneurs when Asked if their Company will still be in Business a Year from Now

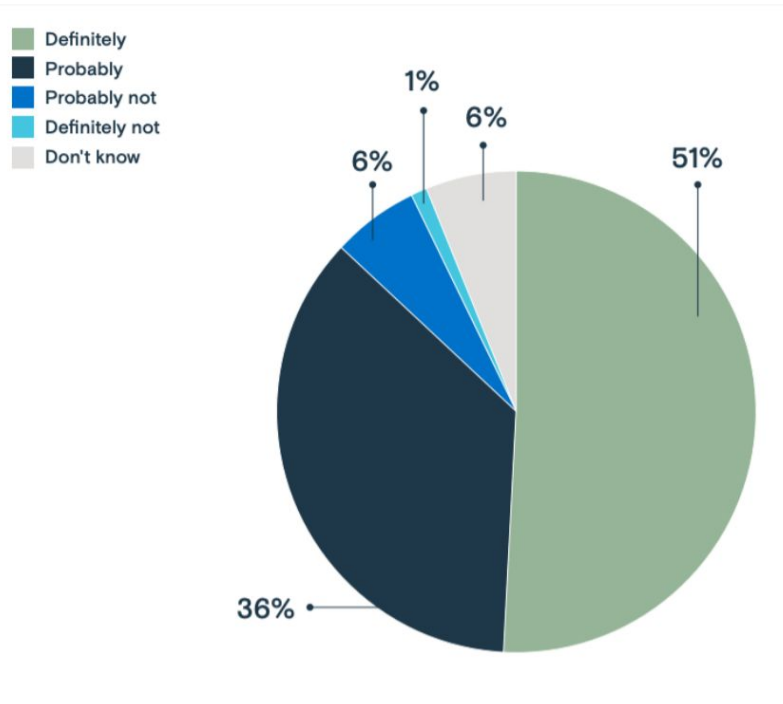


Figure 17
 Source: BDC, Survey on the impact of COVID-19 on Canadian SMEs, June 2020.

According to the BDC, the five priorities of SMEs in response to COVID-19 are restoring financial health, taking advantage of technology, focusing on remote work, selling online, and reviving growth.¹⁰⁹ However, business owners say the top challenges they face when investing in technology are employment training and lack of expertise, as well as minimal return on investment (Figure 18). The challenges that SMEs faced during the economic shutdowns brought on by the pandemic show how e-commerce can help a business remain resilient in a downturn, as companies that were selling online pre-pandemic were less affected by lockdowns.¹¹⁰

Challenges Facing SMEs when Investing in Technology

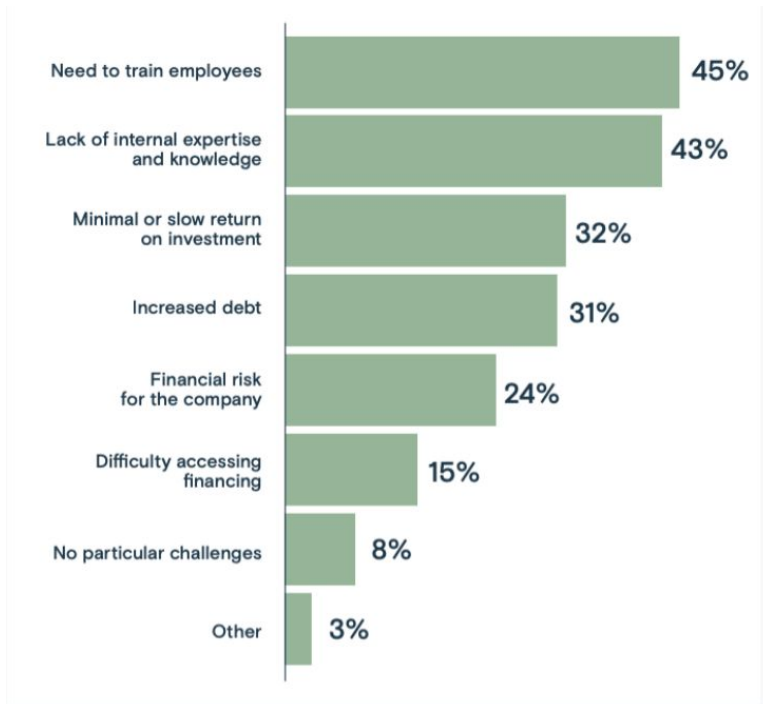


Figure 18
Source: BDC, Survey on the impact of COVID-19 on Canadian SMEs, June 2020.

Use of Communication Channels during the Pandemic (% response among all businesses)

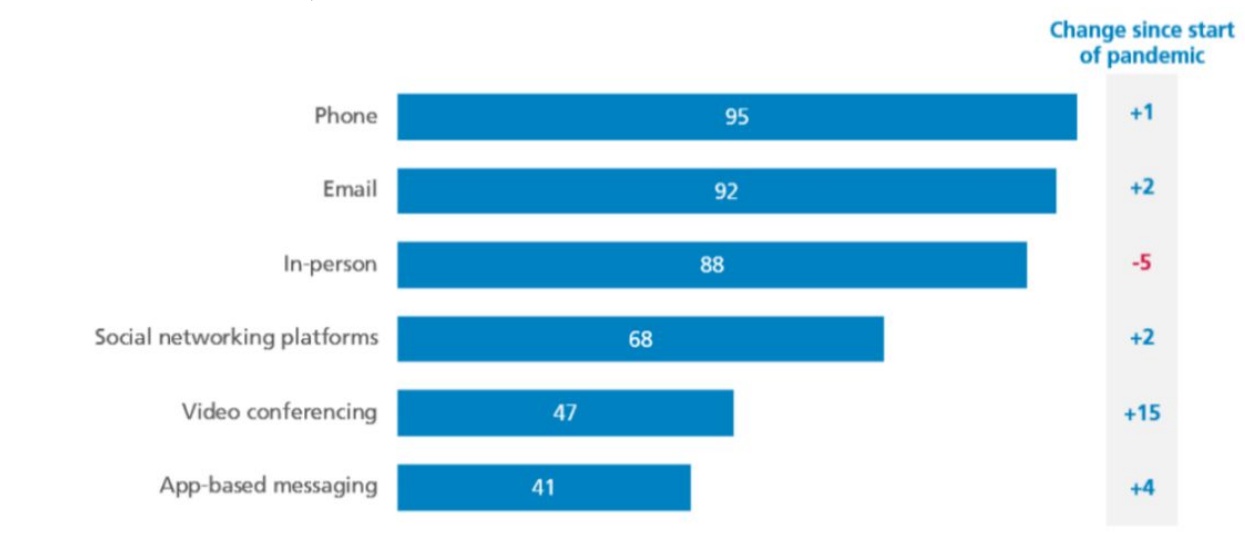


Figure 19
Source: CFIB: Transformation of Canada's Small Businesses Series - Connecting with Customers During the Pandemic

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