CANADA'S TRADE POLICY REVIEW

PREPARED BY
Rachel Hanes, MA Candidate
Judy Perpose, MA Candidate
Canada’s Trade Policy Review
Authors: Rachel Hanes and Judy Perpose

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

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>BDC</td>
<td>Business Development Bank of Canada</td>
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<td>CDIA</td>
<td>Canadian Direct Investment Abroad</td>
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<td>CETA</td>
<td>Comprehensive Economic and Trade Agreement</td>
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<td>CFIB</td>
<td>Canadian Federation of Independent Businesses</td>
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<td>CPTPP</td>
<td>Comprehensive and Progressive Agreement for Trans-Pacific Partnership</td>
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<td>CUPE</td>
<td>Canadian Union of Public Employees</td>
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<td>CUSMA</td>
<td>Canada-United States-Mexico Agreement</td>
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<td>GAC</td>
<td>Global Affairs Canada</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ISED</td>
<td>Innovation, Science and Economic Development</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>R&amp;D</td>
<td>Research and development</td>
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<tr>
<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<td>SME</td>
<td>Small and medium-sized enterprises</td>
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<td>USA</td>
<td>United States of America</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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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
In April of this year, the government tightened rules on foreign investment, which may protect Canadian assets, but could also reduce foreign investment.\(^\text{11}\)

## Past Policies and Critical Decisive Moments

<table>
<thead>
<tr>
<th>Timeline</th>
<th>Past Policies/Critical Decisive Moments</th>
<th>Details</th>
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<tbody>
<tr>
<td>1990s-2000s</td>
<td>Increased integration with the United States Team Canada-branded trade missions</td>
<td>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. Prime Minister Jean Chretien also launched his Team Canada trade missions to India, Brazil, Chile, China, and Europe in an attempt to diversify exports.</td>
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<td>2011-2015</td>
<td>Global Markets Action Plan and economy-first foreign policy</td>
<td>Stephen Harper launched the Global Markets Action Plan, an economy-first approach to foreign policy that focused on trade agreements with emerging markets.(^\text{12}) This period sees an increase in trade deals and the negotiations of CETA and TPP.</td>
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<tr>
<td>2017</td>
<td>Progressive Trade Agenda</td>
<td>Justin Trudeau touts a progressive trade agenda in the renegotiations of NAFTA, hoping to include chapters on gender, environment, and indigenous issues.(^\text{13}) Free trade talks with China fail as a</td>
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\(^\text{10}\) \(^\text{11}\) \(^\text{12}\) \(^\text{13}\)

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result of disagreements over the progressive trade approach. 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.

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<th>Year</th>
<th>Event</th>
<th>Description</th>
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<td>2018</td>
<td>Export Diversification Strategy</td>
<td>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. Progressive trade is not mentioned in the mandate letter. The Fall Economic Statement invests $1.1 billion over 6 years to increase Canada’s overseas exports by 50 percent by 2025. NAFTA negotiations conclude in the new CUSMA, which includes a provision prohibiting new agreements with non-market countries (e.g. China).</td>
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<td>2020</td>
<td>Response to COVID-19 Regional Comprehensive Economic Agreement</td>
<td>In response to the COVID-19 pandemic impacting small businesses, Minister Ng announced new measures to help SMEs through the CanExport program with a focus on e-commerce and virtual business. As GAC continues to identify Asia-Pacific as a key region for exports, the RCEP is signed by 15 countries.</td>
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Economic Growth: Canada’s GDP in 2019 was 1.736 Trillion (Current US$). 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%. 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 output (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 2018 (see Appendix B). The average annual growth rate in Canadian goods exports to China was 6.6% in the last decade. However, in 2019, Canadian goods exports to China experienced a 16% drop due to trade measures imposed by China. Despite China being Canada’s third-largest trade partner, they experienced the largest decline in goods exports in 2019.
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. 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 pandemic which could continue to exacerbate Canada’s decline in trade export prices.

Canadian Goods Trade Price Index (2010-2019)
**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 peers\(^ {32}\) (See Appendix C.1). COVID-19 disruptions are estimated to cause a 50% decline in global FDI flows\(^ {33}\) (See Appendix C.2). The US remains Canada’s largest FDI source.

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

![Figure 3](Source: Global Affairs Canada, *Canada’s State of Trade 2020*)

### Current Policies and Policy Alternatives

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<th>Current Policy</th>
<th>Details</th>
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<tr>
<td><strong>Progressive / Inclusive Trade Agenda</strong></td>
<td>● 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</td>
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renegotiations, the CPTPP discussions, and all other trade talks.
- After a series of failed trade talks with China and India, the government began using the term “inclusive” instead and mandated Minister Ng to pursue agreements that will benefit the middle class.

### Export Diversification Strategy

- 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. 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

- Minister Ng is mandated to mobilize exports of SMEs and maximize trade promotion through the Trade Commissioner Service and CanExport (Appendix D).
- Due to the COVID-19 pandemic, the number of SME exporters dropped 10.7% in March 2020. According to Canada’s State of Trade 2020, Canadian exporters and importers are underutilizing CETA.

### Engagement with China

- 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

- 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.

### Increase Competitiveness

- 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. Currently, Canada spends only 1.6% of GDP on R&D, below the OECD average of 2%.

Policy Analysis

Interests and Values

Canada is referred to as a “trading nation” 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.

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 region (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).

Stakeholders, Allies and Detractors

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Interests and Relationship to Policy</th>
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<tbody>
<tr>
<td>SMEs</td>
<td>● <strong>Interests</strong> access to overseas markets, the removal of interprovincial trade barriers, assistance for SMEs to digitize and innovate.</td>
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<tr>
<td></td>
<td>● <strong>Ally</strong> for establishment of trade offices abroad,</td>
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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) | **Interests:** Improving Canadian business competitiveness, government investment in innovation and R&D\(^48\)  
**Ally** for increased trade agreements, enhancing interprovincial trade,\(^49\) increasing assistance for SMEs and policy improvements to the Investment Canada Act\(^50\) |
| --- | --- |

| Canadian Labour Groups (UNIFOR, CUPE, Canadian Labour Congress, Council of Canadians) | **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 imports\(^53\) |
| --- | --- |

| Federal Opposition Parties | **Conservative Party of Canada**  
**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**  
**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) | **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. |
**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 Canada\(^{56}\). 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 States\(^{57}\) (Appendix G). To increase exports among SMEs,
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

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<tr>
<th>Pro</th>
<th>Con</th>
<th>Outcome</th>
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<tr>
<td>Technology-enabled SMEs export more than non-technology enabled SMEs</td>
<td>SMEs make up only 25.6% of the total value of Canadian goods,exports and may not have an overall impact on trade growth</td>
<td>Increased trade as more SMEs are able to export their products</td>
</tr>
<tr>
<td>Increased trade diversification, as 30% of SMEs with digital capabilities export to 3 or more countries</td>
<td>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</td>
<td>A higher amount of SMEs with digital capabilities will increase exports to markets outside of the United States</td>
</tr>
<tr>
<td>Opportunity to work with stakeholders to encourage SMEs to access CanExport programs or to increase digital services on their own</td>
<td>This will require consultations with stakeholders and possible changes to the program</td>
<td>More SMEs will be aware of the programming offered by the Government of Canada to help improve exports</td>
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**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.
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<th>Pro</th>
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<th>Outcome</th>
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<tr>
<td>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, including the Canada-Pacific Alliance Free Trade Agreement and a Canada-ASEAN Free Trade Agreement</td>
<td>Other emerging markets also require Canada’s engagement (e.g. South Africa and Brazil) however, limited departmental resources could result in them being neglected</td>
<td>A more focused approach will allow for Canada to ensure high-quality international engagements are sustained for Canada’s most important economic partners</td>
</tr>
<tr>
<td>Access to a larger global market, as Asia is estimated to account for 40% of global middle-class consumption by 2030</td>
<td>Trade deals take years to negotiate and will not show economic benefits until the agreement is finalized.</td>
<td>Promoting Canadian SMEs in Asia-Pacific will create significant economic gains for businesses and lower dependence on the US market</td>
</tr>
<tr>
<td>Restarting free trade talks with China and India to promote export diversification</td>
<td>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</td>
<td>Successful free trade talks could increase economic growth and decrease dependence on the United States market</td>
</tr>
<tr>
<td>Participation of immigrant entrepreneurs with cultural competencies and technical knowledge can aid with expansion to new markets in their country of origin</td>
<td>Ethno-cultural chambers of commerce have limited resources which restricts their scope of action</td>
<td>Combining knowledge of markets, products, culture and language increases ability to expand trade activity to new markets</td>
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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.

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<tr>
<th>Pro</th>
<th>Con</th>
<th>Outcome</th>
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<tr>
<td>Protecting key industries will prevent the adverse effects of</td>
<td>Restricting foreign investment could negatively affect Canada’s</td>
<td>Key industries will remain protected from foreign owned enterprises, and Canada will be able to</td>
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<tr>
<td>acquisitions of Canadian companies, such as lower rates of</td>
<td>standing on the World Bank’s Enabling Trade Index.</td>
<td>remain competitive and strengthen the economy in the longer term</td>
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<tr>
<td>productivity and competitiveness and negative effects on the</td>
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<td>Canadian economy in the longer term</td>
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<tr>
<td>Tightening rules and streamlining reviews under the Investment</td>
<td>Greater restrictions could be a disincentive for foreign direct</td>
<td>Ensures the continued growth of Canadian industries</td>
</tr>
<tr>
<td>Canada Act would ensure foreign investors are scrutinized and</td>
<td>investment in the Canadian economy</td>
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<td>measured for their benefits to the whole Canadian economy</td>
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<tr>
<td>Protecting key Canadian industries from bankruptcy and investing</td>
<td>The government will be heavily scrutinized for allocating public</td>
<td>An increased amount of Canadian-made products</td>
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<td>in Canadian-owned enterprises will ensure less</td>
<td>funds to bail out private enterprises by</td>
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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.\(^6^4\)

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.\(^6^5\) While small business employment rebounded in November, 14% of businesses reported they were considering bankruptcy or winding down operations.\(^6^6\) However, 87% of SMEs are confident their business will survive the pandemic.\(^6^7\) 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.\(^6^8\) 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.\(^6^9\) According to a recent PayPal study, 63% of digital small businesses export and a third of these businesses export to 3 or more countries.\(^7^0\) 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.
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. Provinces can mobilize these trade offices to promote SMEs in these target markets. 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. 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. 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 SMEs and ensure all the resources SMEs exporters need for success can be found on one main website or office.

Communication Strategies

<table>
<thead>
<tr>
<th>Target</th>
<th>Message</th>
<th>Method</th>
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<tr>
<td>Canadian Media Institutions</td>
<td>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</td>
<td>The Minister can hold a press conference, conduct interviews and issue press releases to ensure the Canadian media is aware</td>
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<tr>
<td>Small and Medium Sized Enterprises</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>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. Sub-national governments should be invited to participate in planning for future FTAs and global trade relations.</td>
<td>Stakeholders can be included in press conferences and press releases. The Minister should hold round-tables with sub-national government officials to discuss future trade plans, goals and objectives.</td>
</tr>
<tr>
<td>Branding</td>
<td>Canada should brand itself as pursuing all government trade-related actions as part of an inclusive trade agenda.</td>
<td>Government communications and press releases should include “Inclusive Trade Agenda” and all announcements should be branded as part of this agenda.</td>
</tr>
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## Timeline with Key Performance Indicators

<table>
<thead>
<tr>
<th>Timeline</th>
<th>Key Performance Indicators</th>
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<tr>
<td><strong>2021</strong></td>
<td>● Increase of SMEs who access CanExport funding for digital services&lt;br&gt;● Partnership with stakeholders to encourage SMEs to access funding and become aware of programs being offered&lt;br&gt;● Consultations with SMEs to see how digital services can be tailored to fit their needs&lt;br&gt;● 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. ³³&lt;br&gt;● Beginning in 2021, continue to monitor Canada’s growth in GDP and Foreign Direct Investment each year</td>
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<tr>
<td><strong>2022</strong></td>
<td>● 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.&lt;br&gt;● The government should conduct the Survey on Financing and Growth of Small and Medium Enterprises annually to track progress and monitor export growth.&lt;br&gt;● Measure SMEs and their exports to markets outside of the United States&lt;br&gt;● Conduct a gender-based analysis (GBA+ Analysis) to ensure women entrepreneurs are taking advantage of services being offered to increase SMEs exports and digitization.&lt;br&gt;● Increased trade missions (in person or virtual) to key markets in partnership with SMEs, provinces and other stakeholders</td>
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<tr>
<td><strong>2025</strong></td>
<td>● Success will be measured by the mandated goal of an increase in exports by 50% by 2025&lt;br&gt;● Canada to improve in Herfindahl-Hirschman Index (HHI) measure on export diversification and concentration&lt;br&gt;● Canada to increase ranking on the World Economic Forum’s Trade Openness, World Bank FDI global ranking and standing on the</td>
</tr>
</tbody>
</table>
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

Figure 4
Growth in Real Output by Firm Size in the Business Sector, 2016 to 2020 Q1

Figure 5

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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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

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<td>0.26</td>
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<td>0.173</td>
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<td>0.166</td>
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<td>0.065</td>
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<td>0.064</td>
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Figure 7

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)
FDI earnings of selected countries, Q3 2019-Q2 2020

Appendix D: CanExport

The government launched the CanExport SMEs program through the Trade Commissioner Service in 2016, allocating $190 million in funding. This program provides SMEs with funding of up to $75,000 for travel costs and export-related expenses. 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 months. In the 2018 program audit, CanExport spending had been lower than budgeted:

CanExport Program Funding by Fiscal Year
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. 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.”

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.

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

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.

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. Fees to access online marketplaces, such as Amazon or Alibaba, or subscriptions to e-commerce platforms, such as Shopify, are also considered ineligible expenses.

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

**Canadian SME Exports, 2017**

![Graph showing percentage of Canadian SMEs that export](image)

Figure 10

### 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.”

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.\textsuperscript{99}

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

**Investments in Canada by Sector**
The top investors in Canadian businesses are from the US, the European Union and China:

Top Investors in Canada

Appendix G: SMEs Exports

SMEs account for 99.8% of all businesses in the country, but only 12% of these companies export\(^\text{100}\). 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 goods\(^\text{101}\) (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 exports\(^\text{102}\) (Table 3). SMEs exports are concentrated in the United States\(^\text{103}\).

Contribution of SMEs to the Export of Goods by Number of Exporters and Value of Exports, Canada, 2017
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
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.\textsuperscript{104} According to the CFIB, 51\% of business owners are going to rely more on digital communication in the coming year\textsuperscript{105}.

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.\textsuperscript{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.\textsuperscript{107}

Views on Digital Communication Total Agree (% strongly agree/somewhat agree)
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.\textsuperscript{108}

Response of Entrepreneurs when Asked if their Company will still be in Business a Year from Now
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. 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.
Use of Communication Channels during the Pandemic (% response among all businesses)

Figure 18

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

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