No Time for Complacency: A 21st Century Trade Strategy for Canada

Canada and The World
New Directions for Canada’s International Policy

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In Fall 2014, CIPS convened four working groups of academics and policy practitioners to explore new thinking and policy options in four areas: International Security and Defence, International Development, International Trade and Commerce, and International Human Rights. The working groups grew out of the discussion at the May 2014 Ottawa Forum, which focused on rethinking Canada’s international strategy. The groups met, consulted, deliberated and drafted their reports and recommendations over the past year. CIPS is releasing the working group reports as part of its ongoing effort to promote evidence-based discussion of international policy issues in Canada.
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EXECUTIVE SUMMARY

CANADA IS A TRADING NATION. Our small domestic market requires that we constantly look for new growth opportunities outside our borders. Recently negotiated trade agreements with Europe and the member countries of the Trans-Pacific Partnership will give Canadian companies of all sizes preferential access to over 60 per cent of the global economy. It is crucial that business and government adopt a partnership approach and business strategies are in place to win new customers, in order for Canada to take full advantage of this new paradigm.
SUMMARY OF RECOMMENDATIONS

CANADA’S INTERNATIONAL AGENDA

1. Modernize the North American trading platform.

2. Finalize and ratify the Canada-EU trade deal... and plan beyond it.

3. Ratify the Trans-Pacific Partnership agreement without delay.

4. Launch bilateral trade talks with China.

5. Join the Pacific Alliance at the earliest opportunity.

6. Conclude bilateral trade deals with India and Japan and negotiate closer ties with ASEAN.

7. Sustain efforts to resolve the current impasse at the World Trade Organization.

8. Advocate for more liberal rules of origin to reflect the “made in the world” reality of global supply chains.

9. Place a renewed emphasis on trade in services.

10. Collaborate with trading partners on rules to improve cross-border data flow and protect privacy.

11. Integrate trade more closely with development aid.

12. Maintain preferential tariffs for the least-developed countries.

13. Ensure the success of Export Development Canada’s new development finance initiative.

DOMESTIC REFORMS

14. Modernize the 1995 Agreement on Internal Trade to create a Canadian common market and provide a more effective dispute resolution process.

15. Review all barriers that hinder Canadian suppliers from being globally competitive.

16. Clarify Canada’s foreign investment regime.

17. Improve trade and investment statistics and publications by including foreign-affiliate and services data.

18. Implement a national food traceability system

19. Strengthen consultations with stakeholders in trade negotiations.

20. Utilize economic diplomacy to advance Canada’s economic interests.

21. Identify tools to drive trade and investment, specifically expanded infrastructure and a national energy strategy.

22. Examine Canada’s immigration policies to ensure that we attract and retain talent.

23. Introduce a new visa category for immigrants who anchor global businesses in Canada.

24. Provide adequate resources to Canada’s trade remedy system.
INTRODUCTION

THIS PAPER’S CENTRAL THEME is that Canadian firms, with the active support of government, need to be more aggressive and more purposeful in pursuit of new markets. At a time of tremendous change in global trade patterns, a well-considered and well-executed plan is essential to sharpen Canada’s competitive edge.

Canada is a trading nation. For the past quarter century, merchandise exports have contributed a third of our gross domestic product, and we have imported roughly the same value of goods. But trade in the 21st century is about much more than the export and import of goods. Services, investment and global value chains are key components of global commerce today. So too are joint ventures, research and development partnerships and new e-commerce platforms.

Whether we like it or not, our relatively small home market means that ambitious companies of all sizes have little choice but to look for growth opportunities outside Canada. That imperative will not change.

Canada is on the cusp of entering a new era of free trade. We have free trade agreements with 16 countries around the world. Once Canada’s free trade agreements with Europe and the members of the Trans-Pacific Partnership (TPP) are finalized and in force, Canada will have free trade with more than 60 per cent of the global economy. From investment to government procurement to services, Canada’s vast network of trade agreements is creating new opportunities for businesses of all sizes.

To take advantage of these opportunities, two things must be in place: business strategies to win new customers and a partnership approach between government and business.

While foreign trade offers vast potential for Canada, there is also a more ominous side to the story. Unless we take full advantage of fast-expanding markets beyond our borders, Canada risks falling behind our competitors.

Canada has some enviable advantages

Canada has a diversified, advanced economy with a rich endowment of natural resources that are in demand around the globe. Canada also has the advantage of being part of an extensive web of bilateral and multilateral trade and investment agreements.

We have built an excellent track record of engagement at the World Trade Organization (WTO) to support trade liberalization. At the same time, Canada has successfully pursued regional and bilateral negotiations with most of our key trading partners, with the notable exception of China.

While multilateral negotiations have stalled at the WTO, attempts are being made to advance group (or “plurilateral”) agreements, such as for services.

Innovative ideas and a renewed willingness to engage could build new momentum for Canada to take advantage of the opportunities that international trade offers.

Canada recently concluded a trade deal with South Korea, its first with an Asian nation. A broad and innovative agreement with the EU, known as the Comprehensive Economic and Trade Agreement (CETA) is being finalized. CETA’s ratification will set a new benchmark for bilateral agreements, and give Canadian producers preferred access over their competitors from the United States.

The US remains by far the largest market for Canadian exports. That reliance has at times seemed like a mixed blessing. Even so, few would dispute that the relationship has, on balance, been hugely beneficial, especially at times – such as the present – when the US economy is a beacon of growth, and thus a powerful engine for its trading partners. Canada’s economy would surely be in much rougher shape without buoyant US demand for motor vehicles, lumber and farm products, to name just a few of the thousands of items that cross the border each day.

But we are also vulnerable

The sobering news is that our share of global trade is shrinking. Falling commodity prices have eroded the value of some key exports even though volumes have in many cases held steady. Non-energy exports have yet to pick up the slack, as hoped. In this environment we cannot afford to be complacent. Canada must add value to our exports and diversify trade, even as a weakened dollar inevitably helps boost Canada’s non-energy exports.

Even the largest Canadian firms are, with just a few exceptions, only medium-sized when compared to their
global peers in sectors such as mining, information technology and financial services. Size matters when it comes to selling products globally. Only 1.3 per cent of small Canadian businesses export compared to 43 per cent of large firms. Participation in large firm supply chains is how many small and medium sized enterprises (SMEs) reach global markets.

Canada has yet to realize the potential of fast-growing emerging economies. By 2050, these countries will make up more than half of the world’s wealth and global trade. The Bank of Canada estimates that if Canada had the same exposure as the US to emerging markets, our exports would be $60 billion higher, equivalent to three times our exports to China in 2014.

What’s more, our most valuable trading relationship, with the US, shows signs of fraying at the edges. Canadian products and services are gradually being displaced by imports from Mexico and China.

Our priorities are clear

In an era of intensifying competition, few Canadian suppliers can base a long-term survival strategy – much less a growth strategy – solely on their home market. We therefore need to re-examine barriers to the internal and external movement of goods, services, labour and capital that hamper Canadian firms’ ability to think globally and to be competitive on an international scale.

More high-growth firms must be encouraged to grow globally from their Canadian base. There are some signs that this is happening, with Canadian companies expanding their sales by foreign affiliates to customers in growth markets.

As the world becomes more complex, Canada must ensure that it plays an active role in the global trading system, works with existing trading partners to eliminate the barriers that remain, and stays one step ahead of our rivals to secure access to promising new markets. This requires a partnership approach between business and government. The private sector must lead in the identification of new customers and the development of new products, while government policies and institutions such as the Trade Commissioner Service and Export Development Canada (EDC) remain vital.

The global trade environment is changing more rapidly than ever before with the rise of e-commerce and the
growing importance of the services sector. Canada has an opportunity to embrace this change by creating the most open and connected economy in the world.

Staying on the sidelines carries high risks. One is that Canada will be left behind as a more ambitious US administration pursues wider trade liberalization. To hedge against this threat, Canada must diversify to growth markets through initiatives such as the TPP. Only in this way can Canadian suppliers broaden their horizons.

We also need to move forward on trade discussions with China, our second largest trade partner. While the value of our trade with China has risen, our market share has not. By contrast, Canada’s rivals, such as Australia and New Zealand, have seized the initiative by completing free trade deals with China.

Some provinces have been more successful than others in penetrating Asian markets. China is British Columbia’s second largest trade partner, contributing 21 per cent of the provinces total trade. Yet China makes up only 7 per cent of Ontario’s foreign trade.

Canada should benchmark its foreign investment review policies under the Investment Canada Act against those of our most direct competitors, and streamline them accordingly. Inflows of direct foreign investment remain healthy, but there is room to improve Canada’s reputation as an investment destination, especially now that regulators have some experience with new provisions to safeguard national security.

All in all, there is no room for complacency in our trade policy. Below are 24 recommendations plus supporting arguments for moving Canada forward.
RECOMMENDATION 1
Modernize the North American trading platform

Although the North American Free Trade Agreement (NAFTA) between Canada, the US and Mexico is little more than 20 years old, much has changed since it came into force in January, 1994. Most notably, the three countries have to a greater or lesser degree:

- Faced intensifying competition from other parts of the world
- Developed important new energy sources
- Faced new threats to their security

With a new, forward-looking administration in Mexico and a new administration in Washington after the 2016 elections, Canada needs to find innovative ways to modernize its trading relationships with these two valuable partners.

Our primary goal should be to turn NAFTA into a production platform based on the North American region, rather than on three separate countries. We can move in that direction by building on moves already made towards a coordinated North American approach on energy and the environment, including carbon pricing.

Border security will remain a top priority for the US, but the Canadian and Mexican borders raise different challenges. While not losing sight of measures to ensure physical security, we need to keep Washington’s attention focused on the importance of smooth trade flows across the US-Canada border. This involves not only negotiating...
Canada’s relative competitiveness within NAFTA is not as strong as it could be. Canadian enterprises could control more aspects of sales and sourcing — more nodes of the supply chain — through investment and location in Mexico and the United States. Without these ownership benefits, Canada remains a spoke with low market power within the NAFTA relationship.’

LAURA DAWSON
Canada-Mexico Trade: An Arranged Marriage Comes of Age. University of Calgary, The School of Public Policy

new programs and arrangements, but steps to ensure they are put into practice.

Recent initiatives, such as Beyond the Border, offer an excellent platform to build on. A number of important pilot projects are already advancing secure movement of goods across the border. These projects include truck cargo pre-inspection, agri-food shipment pilots and law enforcement on waterways. In 2015, Canada and the US finalized a more comprehensive pre-clearance agreement for land, rail, sea and air shipments.

Given the relative importance of traded services, more weight should be given to smoothing the way for movements of people. The US is Canada’s main market for sales of high-value business services. Enhancements to NEXUS and Sentri, the two main trusted-traveler programs in North America, would be a welcome step forward. For example, having more information available on past and future trips would minimize miscommunication between travelers and border officers, and thus reduce border delays.

Based on current trends, Mexico will emerge as the US’s largest NAFTA trading partner within the next 20 years, relegating Canada to the junior partner in NAFTA. Over the past decade, the US’s total merchandise trade with Canada has grown by 19 per cent, while its trade with Mexico has ballooned by 68 per cent.

The large and ever-growing Mexican population living in the US will also turn Washington’s attention and priorities southward. Canada needs to recognize which way the wind is blowing, and take the offensive on the issues that matter to us. A change in mindset is essential so that we recognize our relationship with Mexico as a full partnership and build on areas of common interest. For example, Canada and Mexico partnered to bring forward a successful WTO challenge on US Country of Origin Labelling regulations which negatively affected our cattle exports to the US.

We also need to recognize the importance of the Canada-Mexico trading relationship. We are each other’s third largest trading partners. Two-way merchandise trade has soared more than sevenfold since 1993 (the year before NAFTA came into force), reaching $34.3 billion in 2014. Mexico offers huge potential for Canadian investment and exports as it opens its oil and gas sectors, as its middle class expands, and as its youthful labour supply con-
tinues to grow.

Mexico is set to be the world’s 8th largest economy by 2030⁴, positioning it as an engine of growth for Canadian businesses, and a powerful catalyst for North America’s global competitiveness. Mexico offers the cost and demand advantages of an emerging market, but at lower risk thanks to two decades of integrated trade rules and practices.

Given the importance of the relationship, Canada should remove the visa requirement that was imposed on Mexicans in 2009 as a “temporary” measure to deter bogus refugee claimants. After all, the federal government recognized Mexico in 2013 as a “safe” country unlikely to produce genuine refugee claimants. Extending the Electronic Travel Authorization (ETA) program to Mexican travelers would help ensure that the visa exemption is not abused.

While none of the three countries has any appetite to negotiate a new trade agreement that would require legislative approval, much can be done within the existing NAFTA framework. A Trade Facilitation Advisory Board could be set up to monitor and report on customs practices and rules, and to push for further streamlining of customs clearance and cargo security procedures.

The recently concluded TPP, assuming it becomes reality, will build on NAFTA without an outright renegotiation of the 1994 agreement. All three NAFTA signatories are among the 12 TPP negotiating parties. Given that the TPP will broaden and deepen some existing NAFTA obligations, Canada must move swiftly to implement this agreement along with our other TPP partners.

Some perennial irritants in the Canada-US relationship also need deft handling. One example is softwood lumber, bearing in mind that the 2006 bilateral agreement expired in October 2015.

RECOMMENDATION 2
Finalize and ratify the Canada-EU trade deal ... and plan beyond it

The Canada-EU Comprehensive Economic and Trade Agreement (CETA) is the most important trade deal for Canada since NAFTA. Finalizing the legal text and securing ratification on both sides of the Atlantic should be an urgent priority. Canada needs to ensure that European citizens and politicians have the facts about CETA and understand the significant benefits for both sides.

CETA will have the most transparent provisions of any recent trade agreement for settling disputes between investors and governments. Investment hearings and submissions will be public. The EU and Canada agree that the use of domestic courts is to be encouraged, in order to promote early settlement of disputes before arbitration. The investment chapter also preserves the government’s ability to regulate in the public interest, including health, environment and labour issues.

With CETA in force, Canada will have negotiated trade agreements with the world’s two largest economies, making us a model for international trade and commerce in the 21st century. CETA will give Canadian exporters privileged access to a market of more than 500 million consumers, spread across 28 countries that make up one-fifth of global economic activity.

The ratification of trade deals will result in increased competition, bringing better choice and prices to Canadian consumers. It also requires strategic planning on a scale not managed by Canadian government entities in the past. Leaders of key government departments, such as Trade, Industry, Agriculture and Finance should meet regularly with EDC to assess the status of exports and to coordinate tools and outreach strategies.

If the EU and US succeed in concluding their Transatlantic Trade and Investment Partnership (TTIP), the next logical step would be to create a North American-EU free trade zone. This could be achieved by meshing CETA, TTIP and Mexico’s trade agreement with the EU through “cumulation” – the principle that goods considered to be originating in one country within a free trade bloc should be treated as originating by other countries in the same bloc. Free trade in services should also be a key part of a North American-EU free trade zone. The EU is the world’s largest importer of commercial services.

Looking beyond CETA and TTIP, advanced economies will need to integrate technology more deeply across borders to facilitate trade. We need to recognize that products and services are increasingly “made in the world” rather than in one nation or region. Enhanced tracking through technology will not only facilitate trade but make it possible to give consumers more information across the entire supply chain. (One example: clicking a bar code...
and finding out where your new bicycle was designed and where its parts came from).

**RECOMMENDATION 3**

**Ratify the Trans-Pacific Partnership agreement without delay**

We are falling behind our competitors when it comes to engagement in Asia. Australia signed a free-trade agreement with China in November 2014, while New Zealand has had a trade agreement with China since 2008.

Canada has only one trade agreement with an Asian country, namely, the recently implemented deal with South Korea. While this is a welcome development, it comes three years after the US secured its own deal with the Koreans. During that time, Canadian exports to Korea have dropped by nearly one-third. We dare not allow this pattern to repeat itself. Canada should be on the leading edge of tightening trade ties with Asia.

The most effective way of doing so would be to ratify the TPP agreement, announced on October 5, 2015, as soon as possible⁵. The TPP will have enormous significance for trade, investment and people-to-people ties across the region.

The 12 TPP members have a combined GDP of nearly US $28 trillion and a population of more than 800 million. The consumer market potential is vast. Economic models suggest that the TPP could yield annual income gains for Canada of US $9.9 billion (0.5 per cent) and lift exports by US $15.7 billion a year (2.7 per cent)⁶.

While a full evaluation can only be done once the final agreements and any bilateral side arrangements with TPP parties are made public, the agreement should be measured against the following conditions if it is to bring tangible benefits to the Canadian economy:

- Elimination of substantially all tariff and non-tariff barriers, including in the farm sector.
- Clear and simple rules of origin that reflect the integrated nature of global supply chains.
- Liberalization of financial, professional and other services.
- Robust rules for investment, and the right to enforce guarantees through dispute settlement mechanisms.
- Restraints on state-owned enterprises so that market-based firms can compete on a level playing field.
- Measures to enforce environmental protection and labour laws.

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**Canada’s Top Merchandise Trade Partners, 2014 (C$ millions)**

Source: Statistics Canada
Finally, TPP members should be careful not to undermine the multilateral trading system. This could be achieved by ensuring that the TPP is open to new members and resists adopting discriminatory regional standards.⁷

**RECOMMENDATION 4**

**Launch bilateral trade talks with China**

China is, and will remain, Canada’s 2nd largest national two-way trade partner after the US. In every sector, from government to business to the daily lives of Canadians, events there will increasingly shape global politics and influence our economic well-being.

According to a McKinsey study, China’s urbanization and industrialization will drive demand for products that Canada is well placed to provide. Each year, roughly 15 to 20 million Chinese move to the cities. The disposable income of Chinese city-dwellers has more than trebled in the past decade.

China’s total urban population is expected to reach almost a billion within the next 15 years. It is projected to be home to half of the world’s 2.2 billion middle-class consumers by 2030. The scale of this internal migration has profound consequences for consumption, production, and infrastructure needs, creating enormous opportunities for Canadian firms.

Much progress has been made on the bilateral relationship since 2010. Canada and China have:

- Completed a study to evaluate how the two economies complement each other
- Concluded a foreign investment protection and promotion agreement in 2014
- Launched the first renminbi trading hub in the Americas in early 2015

A bilateral free-trade agreement is surely the next logical step in the relationship.

Engagement will need to be consistent, and built to withstand inevitable ups and downs and likely flashpoints in the relationship. Canadians already understand that China is a geopolitical power, but they also need a clear explanation of why it is such an important growth market.

**There is high supply in Canada and high demand from China in a number of industries, yet China has stronger trade relationships with other countries.** Canada only provides 0.2 per cent of China’s total petroleum and gas compared with Saudi Arabia, which provides 19 per cent, Angola, which provides 14 per cent, and Russia, which provides 9 per cent. Similarly, China has high supply in industries such as machinery and equipment manufacturing and electrical machinery but only supplies 10 per cent and 16 per cent of imports to Canada compared with the United States, which provides 56 per cent and 46 per cent respectively. As such, opportunities exist to expand trade in key industries where both Canada and China have ample supply.”

MCKINSEY & CO.

Canada–China relations:
Keeping up the momentum, June 2014
RECOMMENDATION 5
Join the Pacific Alliance at the earliest opportunity

South and Central America remain promising markets for Canadian products and services, including financial services, mining, education services and infrastructure.

Canada has long contemplated joining the Pacific Alliance trading bloc, comprising Chile, Colombia, Mexico, and Peru. We already have bilateral free trade agreements with each of these countries. Canada should join the Pacific Alliance at the earliest opportunity, and use it as a platform for broader trade and investment ties in the region.

Canada should take steps to re-invigorate its trade and investment relations with Brazil. The commercial relationship is already significant; Brazil is one of Canada’s top 10 sources for foreign investment. Even though the Brazilian economy has slowed recently, given its size and development, the relationship should be even closer, particularly in mining, transport, financial services, agri-food and information and communications technology.

RECOMMENDATION 6
Conclude bilateral trade deals with India and Japan and negotiate closer ties with ASEAN

The potential of our relationship with India was underscored by Prime Minister Narendra Modi’s visit to Canada earlier this year. Bilateral trade totaled only $6.4 billion in 2014, or just one-sixth of Canada’s trade with China. But the 2012 Canada-India Nuclear Cooperation Agreement is a significant beacon of goodwill between the two nations, and lays the groundwork for wider cooperation in trade and investment.

Moves to conclude a Comprehensive Economic Partnership Agreement (CEPA) with India have advanced slowly since the initiative was launched in 2010. The modest progress is due to a wide range of commercial barriers, including India’s complex regulatory framework for imports of farm products and burdensome corporate tax rules that make it a challenging destination for business investment. Every effort should be made to conclude CEPA without further delay as a way of spurring Canada-India trade.⁸

Canada is in the throes of negotiating a bilateral free-trade agreement with Japan outside the recently concluded TPP negotiations. While much of the gains from a Canada-Japan FTA will be realized through the TPP, there may be other areas where it could be possible for the two countries to achieve a higher level of ambition than the TPP. For example, Japan is a major source of investment in Canada. A bilateral agreement would encourage Japanese investment in Canada’s energy sector, bringing economic benefits to Canada and enhancing Japan’s energy security.

Finally, Canada should negotiate closer trade and economic ties with fast-growing members of the ASEAN not party to the TPP agreement, such as Indonesia, Thailand and the Philippines. Sectors of greatest potential for Canadian SMEs include aerospace, agri-food, automotive clean tech, ICT and oil and gas.⁹

Trade Commissioner Service and EDC resources in these fast-growing markets are particularly important, where Canadian firms have less historical experience and where governments are seen as key relationship partners by Asian firms.

RECOMMENDATION 7
Sustain efforts to resolve the current impasse at the World Trade Organization.

Given that the WTO remains a cornerstone of the global trading system, Canada needs to continue its efforts to break through the current impasse. The WTO is Canada’s “trade agreement with the whole world,” including important growth regions in Africa and Latin America.

The WTO’s uniform trade rules facilitate global growth and simplify the international operations of Canadian companies. As well, the WTO remains a key building block for integrating developing countries into the global trading system. Many still lack the resources to negotiate significant bilateral or plurilateral agreements, and so look to the WTO to set the rules.

Canada has historically played an influential role in the
development of global trade rules. Thus, while it may be some time before the latest round of WTO negotiations can be put back on track, we should remain active in efforts to resolve differences between the major trading nations. Ratification of the Trade Facilitation Agreement will give the WTO much-needed momentum and should be a priority for Canada.

If WTO members decide that no further gains can be harvested from the Doha Round, we should put renewed energy into sectoral agreements covering such areas as green goods, services and high-tech products.

RECOMMENDATION 8
Advocate for more liberal rules of origin to reflect the “made in the world” reality of global supply chains

At a technical level, the “made in the world” reality makes it vital that Canada continues to lead the way in advocating for modern and more widely-applicable rules of origin.¹⁰ Rules of origin in existing trade agreements are inconsistent (and sometimes contradictory), leading to confusion, higher business costs and ultimately lower use of trade preferences. Complex and divergent rules of origin place an especially heavy burden on small and mid-sized exporters.

RECOMMENDATION 9
Place a renewed emphasis on trade in services

The importance of services to the Canadian economy is growing. As Danielle Goldfarb and Jacqueline Palladini of the Conference Board of Canada have noted:

“Services have become integral in how producers operate around the world. Producers are increasingly making use of services in the design and production of their products, and also in the delivery and after-sales support they offer. These services can add value to goods by differentiating them and making them more competitive in international markets. High-value business

Services More Important Than Traditional Measures Suggest
(services value-added share of exports, 2011; per cent)

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services are also associated with increased profits for firms. These high-value activities support high-paying jobs that make use of Canada’s well educated and skilled population.”

Their research indicates that services contribute much more to Canada’s exports than conventional trade statistics suggest.¹¹ Conventional measures suggest services represent about 15% of exports, whereas they represent close to half of exports using value-added measures. One reason is that manufacturing activity spurs exports of value-added services, such as finance and information technology, as well as after-sales services such as logistics, maintenance and repair. These can be profitable business lines for manufacturers as well as for their supply chain partners.

The current focus on improving the WTO’s Trade in Services Agreement is welcome. In negotiating bilateral and regional deals Canadian negotiators will need to focus more closely on the movement of skilled workers who provide services, mutual recognition of qualifications, and non-discriminatory regulation in sectors such as banking and insurance.

Government support for Canada’s education and health care sectors also bears examination. Education in particular is an area where public sector actors need financial support for dedicated international business development. Financial incentives to spur coordination among higher education institutions under a “brand Canada” label could lead to a higher number of foreign students studying in Canada.

**RECOMMENDATION 10**

Collaborate with trading partners on rules to improve cross-border data flow and protect privacy

The mushrooming internet and the spread of digital technologies are fundamentally transforming global flows of goods, services, finance, people, and data communication. The McKinsey Global Institute’s “connectedness index”, which measures these flows, ranks Canada 8th out of 131 countries.¹² But Canada lags in services and data communication. With worldwide flows valued at US $26 trillion in 2012, equal to 36 per cent of global GDP, enhanced data communication is a goal worth striving for. Many of these enhancements will be driven by specific firms, as they use digital e-commerce platforms and new forms of manufacturing to broaden their supplier and
customer relationships. Even so, governments will need to smooth the way with collaborative initiatives to improve cross-border data flow and protect privacy. Canada can contribute by joining like-minded nations to compile a set of rules for proper storage and trade in digital information.¹³

RECOMMENDATION 11
Integrate trade more closely with development aid

RECOMMENDATION 12
Maintain preferential tariffs for the least-developed countries

RECOMMENDATION 13
Ensure the success of Export Development Canada’s (EDC) new development finance initiative

Canada should draw on the strengths of its economy in considering international development initiatives aimed at fostering economic development. For example, Canada should provide technical assistance and training in areas where Canada has clear commercial strengths (e.g. agriculture, transportation, aviation, manufacturing, mining, and infrastructure).

The least-developed nations often lack capacity to negotiate trade agreements or, understandably, do not make such negotiations a high priority. It thus makes sense for advanced economies to continue extending unilateral duty-free access to these countries.

Canada’s least-developed-country tariff classification (which, in practice, means duty-free access) thus serves a valuable purpose, and should remain in force. The federal government’s development resources, including Export Development Canada’s new development finance arm, must be fully aligned with trade promotion activities to ensure that the poorest countries receive the most effective possible assistance.

The expanding debate on income inequality is driving renewed interest in the link between trade and development. A sensible approach would be for trade agreements to include labour provisions that set high standards, and to respect the International Labour Organization’s core labour standards.

One recent innovation in bilateral trade agreements is mandatory reporting on human rights. For example, Canada’s agreement with Colombia includes such a provision. In addition, Canada should use broader diplomatic and development initiatives to support human rights.

Canada’s newly announced Development Finance Initiative (DFI) success depends on its willingness to take on greater risk than EDC at more attractive rates while meeting development goals. This will drive private sector growth in developing countries and help Canadian companies and investors expand their presence in the world’s fastest-growing markets.¹⁴ The above issues are vital to maintaining public faith in open markets. Indeed, they reflect fundamental Canadian values which must be an integral part of all Canada’s international activities.
MOVING FORWARD ... DOMESTIC REFORMS

THE EXISTING PATCHWORK of domestic rules and regulations creates an array of hurdles for Canadian companies eager to gain access to foreign markets, and for foreign companies interested in investing in Canada. Domestic reforms are thus as critical as global engagement if we wish to remain a major player in international trade.

Action on the recommendations below would help align Canada's domestic environment with a bold new international trade strategy.

RECOMMENDATION 14
Modernize the 1995 Agreement on Internal Trade to create a Canadian common market and provide a more effective dispute resolution process

Setting up a barrier-free common market within Canada should be the starting point of any new trade strategy. We will be unable to benefit fully from new trade opportunities in other parts of the world if our companies are unable to attain the scale needed to take advantage of them.

We know that the larger the company, the greater the likelihood that it will be able to crack export markets. In 2010, only one per cent of the small businesses in Canada were exporters. Among large firms, the proportion was 43 per cent. Companies with more than 500 employees make up only 0.2 per cent of Canadian businesses, yet they generate nearly two-thirds of total exports.

Existing rules often hinder rather than help firms’ expansion plans. The Agreement on Internal Trade (AIT), now 20 years old, badly needs an overhaul to reflect the following principles:

- The AIT must be as ambitious and comprehensive as any trade agreement Canada has with a foreign country.
- The concept of mutual recognition should apply to all goods and services. In other words, any item produced in one province or territory should be admitted into any other, unless an exemption is justified.
- The AIT should include a formal mechanism to facilitate regulatory cooperation between provinces and territories, with provisions for regular consultations with businesses – in particular SMEs most vulnerable to costly regulatory barriers.
- The agreement must include an effective dispute-resolution mechanism.
- An effective governance structure should be put in place to manage the economic union and push forward with necessary reforms. The existing consensus-based model is a recipe for inaction, because any province or territory can veto or delay meaningful reforms. The EU has used a qualified majority voting mechanism to overcome such inertia.
- Ongoing stakeholder engagement is critical to ensuring trade barriers are identified and addressed quickly. Creating a digital window where stakeholders can report barriers and receive a timely response would be a good first step.

Canada’s premiers committed themselves to strengthening and modernizing the AIT at their annual conference in August, 2014, promising to deliver a comprehensive renewal by March, 2016. But virtually no progress has been made since then. Even convening a meeting of responsible ministers has turned out to be a challenge. The provinces and territories need to realize that reform will not happen without leadership and commitment.

RECOMMENDATION 15
Review all barriers that hinder Canadian suppliers from being globally competitive.

Numerous Canadian laws and regulations hamper our global competitiveness. We continue to erect barriers to the movement of goods, services and capital in a number of major sectors of the economy – including farming, industry and services.

Focusing solely on the Canadian market may have been a feasible business strategy in the past. But in today’s global village, such a model stifles growth and employment. Canada should re-examine protectionist laws and regulations so that companies of all sizes and in all sectors can seize global opportunities.
Dairy and poultry producers, the main beneficiaries of supply management, have much to gain from exports. The federal government needs to develop a plan in conjunction with the supply-managed industries to help them realize this potential. Such a plan would need to be phased in so that producers and processors would have adequate time to adjust to both the opportunities and challenges of a more competitive environment.

Technology is fundamentally changing the way companies do business. SMEs in particular are increasingly able to reach customers around the world using low-cost technology platforms. To help facilitate trade by SMEs, the government should increase the de minimus threshold.¹⁵

Canada has an opportunity to become a global production hub. To achieve this, consideration should be given to unilateral tariff elimination to reduce the cost of inputs and make Canadian companies more competitive. This will allow firms to expand their operations and increase their presence in global value chains.

**RECOMMENDATION 16**

**Clarify Canada’s foreign investment regime**

Canada’s small population and hefty appetite for capital to develop our industrial base underline the need for an open-door policy toward foreign investors. Foreign investment also brings the benefits of management expertise, innovation and new business opportunities.

Canada should benchmark its foreign investment rules against those of some of our major competitors, such as the US and Australia, to ensure that we are not at a serious disadvantage.

The government has made progress towards modernizing the Investment Canada Act. Long-awaited regulations and details of the national security review were published in March 2015. The new rules raise the key foreign investment review threshold and change the valuation method for most transactions from asset value to enterprise value, underscoring Canada’s commitment to

‘Should Canadian dairy achieve significant success in the export markets (over the next decade), reaching export volumes half that of New Zealand, Canada’s annual production would grow from 8 billion litres to 20 billion litres. Canadians would benefit to the tune of $1.3 billion from efficiency gains’

Foreign Direct Investment in Canada (C$ millions)

Source: Statistics Canada

Foreign Direct Investment from Canada (C$ millions)

Source: Statistics Canada
an open foreign investment regime.

According to the OECD, Canada ranks in the middle of the pack among advanced economies for openness to foreign direct investment. We owe this mediocre rating mainly to sectoral ownership restrictions in telecommunications, cultural industries, broadcasting, transportation services and uranium production. These curbs should be reviewed regularly to assess whether they are still in the public interest.

Greater transparency would also be welcome in the national security provisions, notably by requiring publication of general data on applications and reviews. Parliament and the public should be informed how many national security reviews are conducted each year, and how many investment applications are rejected. The current annual report on the Investment Canada Act – an innovation meant to show transparency and combat claims of opaque practices – contains no information on national security reviews.

The factors applied in national security reviews could also be more clearly communicated, following the example of the US’s Committee on Foreign Investment (CFIUS) and Congressional hearings. Sharing such information would provide greater clarity to investors. As experience with the national security test grows, the threshold for review could be raised even further.

Finally, the federal government should send a clear signal that it welcomes investment by state-owned enterprises in junior mining and energy firms. Such investments could boost deal flow and prices in this important sector of the economy, while still covered by the Investment Canada Act’s national security provisions.

**RECOMMENDATION 17**

**Improve trade and investment statistics and publications by including foreign-affiliate and services data.**

Accurate measurements of Canada’s trade and investment flows are critical to developing sound policies. The current Foreign Affiliate Trade Statistics (FATS) are too broad and do not include annual sales and employment data on Canadian foreign affiliates by sector and country.

‘The investment review process has become more uncertain and actively discourages investment by state-owned enterprises (SOEs), a growing source of global capital. The government has more work to do to loosen foreign investment restrictions in two key sectors: telecom and air transportation.’

PAUL BOOTHE

Compete to Win: The Wilson panel report six years later, Canadian Council of Chief Executives.
To remedy this, Statistics Canada should improve existing surveys to collect additional data on all Canadian multinationals abroad and foreign multinationals operating in Canada. Data on trade in services should also be improved. Services are an important and growing sector of the economy, expanding from 65% of GDP in 2000 to 70% in 2012. Just as significantly, sales by foreign affiliates of Canadian companies surpassed goods and services exports combined in 2009. More detailed information is needed to better understand these trends and their implications for trade policy.¹⁶

**RECOMMENDATION 18**

**Implement a national food traceability system**

Canada’s agriculture and agri-food system is critical to the Canadian economy, accounting for 6.7 per cent of GDP and providing one in eight jobs in 2013.¹⁷ The success of the system depends on trade and access to global markets. Canada is the world’s fifth-largest exporter of agriculture and agri-food products after the EU, the US, Brazil, and China. Approximately half of Canada’s primary agriculture is exported.

Creating a fully traceable food system in Canada holds great potential for the sector’s competitiveness and export potential. Such a system will improve risk management throughout the supply chain, reducing the impact of disease or food safety issues.¹⁸ At the same time, traceability will give consumers around the world greater confidence in Canadian food products. This would give Canadian agriculture a unique advantage and reinforce Canada’s reputation as a safe, secure and high-quality supplier of agriculture and agri-food products to the world.

**RECOMMENDATION 19**

**Strengthen consultations with stakeholders in trade negotiations**

Trade negotiators cannot deliver the best possible deals without informed advice from the private sector. It is thus

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‘Given the dominant role services play in Canada, it is critical that it be accurately measured. Today this is not the case. The substantial value of cross-border trade in services through foreign affiliates, online trade and the movement of service providers is largely embedded in other statistics, or not collected at all.’

Services Coalition letter to the Honourable James Moore, 2013
vital to give relevant experts and stakeholders ample opportunity to share information on the benefits and potential pitfalls of new trade agreements.

Such consultations should fulfil several goals:

- Ensure that policymakers and negotiators have the best possible input to negotiate agreements that contribute to Canada’s economic growth
- Develop wide awareness of what the government is trying to achieve, thereby promoting knowledgeable public discussion about the merits of trade liberalization
- Promote early planning so that businesses are ready to take advantage of an agreement as soon as it is negotiated
- Foster public confidence that negotiations are based on the best possible information

With these points in mind, the authorities should review the current system of consultation. The review should examine, among other items, how our major trade partners conduct domestic consultations, including the use of social media.

Business has a key role to play independent from government in becoming more engaged in policy discussions at the Organization for Economic Development and Cooperation, the B20 and in regional forums such as the Asia-Pacific Economic Cooperation Business Advisory Council. Support from firms to the associations and not-for-profit groups that support global business engagement is vital. Key growth markets for Canada, such as Mexico, would benefit from sustained business engagement by associations and think tanks.

**RECOMMENDATION 20**

**Utilize economic diplomacy to advance Canada’s economic interests**

State-to-state relationships are increasingly important when seeking access to markets in many parts of the world. This is especially true in emerging markets in the developing world, where the private sector is not as well-established and the state often plays a larger role in many aspects of the economy.
The Global Markets Action Plan, launched by the federal government in 2013, aligns Canada’s trade promotion resources to help Canadian companies take advantage of opportunities in high-growth emerging markets and traditional markets of strength. Economic diplomacy is a key component of the action plan and will be critical to its success.

**RECOMMENDATION 21**
Identify tools to drive trade and investment, specifically through export financing, expanded infrastructure and a national energy strategy

Canada’s excellent export finance regime – including both the private sector and Export Development Canada – needs to align with new global production patterns. Financing, credit guarantees and insurance should be made available for the expansion of foreign affiliates, and for foreign producers that include Canadian firms in their global supply chains. Such a move would help Canada maintain its profile in foreign markets and protect head-office jobs at home.

Financing alone will not drive trade and investment. Canada’s trade potential is constrained by a lack of suitable infrastructure. We need a long-term strategy to ensure that Canadian goods can access global markets in a cost-effective and timely way.

The World Economic Forum’s annual Global Competitiveness Report cites inadequate infrastructure as one of the most troublesome aspects of doing business in Canada. We rank 21st in quality of port infrastructure, 18th in rail transport and 16th in air transport facilities. We can surely do better.

Even worse, Canada ranks 130th in air-ticket and airport taxes, according to the Forum’s Travel and Tourism Competitiveness Report. It is time that we viewed our airports as drivers of global trade, not sources of government revenue.

The Asia-Pacific Gateway initiative provides an excellent model for facilitating supply chains between North America and the rest of the world. Its goal is to create the best transport network with Asia. Canada should build on this model to examine all aspects of trade-enabling infrastructure with a view to improved quality, lower costs and higher efficiency. It might include investments in technology to improve logistics between different forms of transport.

The provinces have called for a national energy strategy, but it has yet to materialize. This initiative has important consequences for trade policy. Prices for Canada’s energy assets – whether commodities or companies – are typically well below world market levels, mainly because just one buyer, the US, accounts for 99 per cent of our oil and gas exports. A plan that cleared the way for pipelines to Canada’s coasts, as well as improved port facilities and other infrastructure, would provide a huge long-term boost to oil and gas exports.

**RECOMMENDATION 22**
Examine Canada’s immigration policies to ensure that we attract and retain talent

**RECOMMENDATION 23**
Introduce a new visa category for those who anchor global businesses in Canada

Talented entrepreneurs and skilled professionals are a vital part of any drive to expand trade and investment. Canada should review its immigration policies to ensure that global businesses based in Canada can attract the talent they need. The federal government should consider a new type of visa that allows Canadian companies to bring high-skilled workers to Canada on a temporary basis. The visa would allow multiple entries and quick access to support qualifying business activity.

As a general principle, visas should be processed electronically. User-friendly procedures and quick response times are essential to keep pace with other nations. The government should also look at ways of encouraging passengers flying to and from destinations outside Canada to choose a Canadian rather than a US airport as their transit point.

Looking out more broadly, the government should consider new pathways for permanent residents that match
the skills needed in all sectors, including agriculture, food processing, advanced manufacturing and services.

**RECOMMENDATION 24**

*Provide adequate resources to Canada’s trade remedy system.*

Canadians do not often hear about trade remedies, but they are part of the essential “plumbing” of the global trade system. Robust trade remedies – such as anti-dumping and countervailing duties – discourage other nations from unfairly subsidizing production to gain a competitive edge. Canada must ensure that we have sufficient resources for investigations and a responsive trade tribunal system.
About the Authors

This report was prepared as a group product by the co-authors listed below, who were convened as members of a study group organized by the University of Ottawa’s Centre for International Policy Studies. All co-authors contributed in their personal capacity.

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JOHN GERO worked more than 40 years in the field of international development, trade promotion and trade policy. While he spent most of his career working for the Government of Canada, he also was international trade policy advisor for the Governments of Botswana and Tonga, as well as the Commonwealth Secretariat. He has lived and worked in Gaborone, Nairobi, Geneva and Ottawa. As a Canadian civil servant, John worked for the Canadian International Development Agency and the Department of Foreign Affairs and International Trade. He was Canada’s Chief Trade Commissioner from 2000 to 2003, heading the government’s international business development program. His trade policy expertise was developed in the areas of market access, trade remedies, intellectual property, services and investment. He was the Canadian negotiator for intellectual property in the WTO Uruguay Round and the North American Free Trade Area negotiations. From 2003 to 2008, John led Canada’s trade policy development as Assistant Deputy Minister, Trade Policy and Negotiations and served from 2008 until 2012 as Canada’s Ambassador to the WTO, the World Intellectual
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**MARIE-LUCIE MORIN** was appointed to the Canadian Transportation Act Review Panel in 2014 and to the Security Intelligence Review Committee in May 2015. She served as Executive Director for Canada, Ireland and the Caribbean at the World Bank from 2010 to December 2013. Before joining the World Bank, she pursued a 30 year career in the Federal Public Service during which she acquired extensive policy, management and governance experience. Marie-Lucie was appointed National Security Advisor to the Prime Minister and Associate Secretary to the Cabinet in November 2008; from 2006 to 2008 she served as Deputy Minister for International Trade and from 2003 to 2006 as Associate Deputy Minister of Foreign Affairs. During the earlier years of her career with the Department of Foreign Affairs and international Trade, she completed assignments in San Francisco, Jakarta, London and Moscow. In 1997, Marie-Lucie was appointed Ambassador to the Kingdom of Norway with concurrent accreditation to the Republic of Iceland, a position she held until 2001.

**DEBRA STEGER** is a Professor at the University of Ottawa, Faculty of Law. She teaches and carries out research in the fields of international trade law, international investment law and international dispute settlement/arbitration. Professor Steger was the first Director of the Appellate Body Secretariat of the WTO. During the Uruguay Round, she was the Senior Negotiator on Dispute Settlement and the Establishment of the WTO as well as the principal legal counsel for the Government of Canada. She has served as General Counsel of the Canadian International Trade Tribunal, and practised international trade, investment and competition law with major law firms in Canada.

**CHUCK STRAHL** was a logging and road building contractor prior to his election to the House of Commons in 1993. He was re-elected in 6 consecutive elections before retiring on the eve of the 2010 federal campaign. He filled a number of roles in Parliament while in Opposition, including Party Whip, House Leader, and Deputy Speaker. As a member of the Privy Council, he managed several portfolios in a Conservative government, including Minister of Agriculture, Minister of Indian and Northern Affairs, and Minister of Transport and Infrastructure. Currently, he is a corporate director and consultant.

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Endnotes


2 Macklem, Tiff, “Global Growth and the Prospects for Canada’s Exports”, October 1, 2013, The Bank of Canada

3 For a broader view on Canada-Mexico relations from the perspective of Mexico see: http://open-canada.org/features/the-view-from-mexico-a-roadmap-for-relations-with-canada/

4 Dawson, Laura, “Canada’s trade with Mexico: Where we’ve been, where we’re going and why it matters”, February, 2014, Canadian Council of Chief Executives


8 Rao and Tapp, “The Potential to Grow Canada-India Economic Linkages”, IRPP, August 2015.

9 Peter Baldwin, “ASEAN Commercial Opportunities Study for Canadian Business”, March 2013


15 The de minimus threshold is the value of goods that can be imported into Canada before duties are imposed. The current level is $20 in Canada. Raising the threshold would help small businesses that rely on high volume trade.


