

# Canadian Trade Policy at a Critical Crossroad



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# Our approach to see the forest for the trees

- forward-looking, medium-term
- empirical
- analytical
- international
- interdisciplinary

# New Global Trade Realities

- 1. Resource reallocation within industries is a key driver of trade and productivity.*
- 2. SMEs face long-standing challenges but have new opportunities.*
- 3. Production processes are fragmented, collaborative and global.*
- 4. Foreign affiliates and services are strong enablers of international commerce.*
- 5. Emerging markets are now key players in production, trade and investment.*
- 6. Global output and trade growth has slowed.*
- 7. Anti-trade sentiment and economic anxiety have risen.*
- 8. Trade talks are largely stalled.*

# Many anxieties...trade deals a target

technological change

globalization

automation

trade

precarious work

offshoring



secular stagnation

winner-take-most markets

inequality

“middle class” struggles

immigration

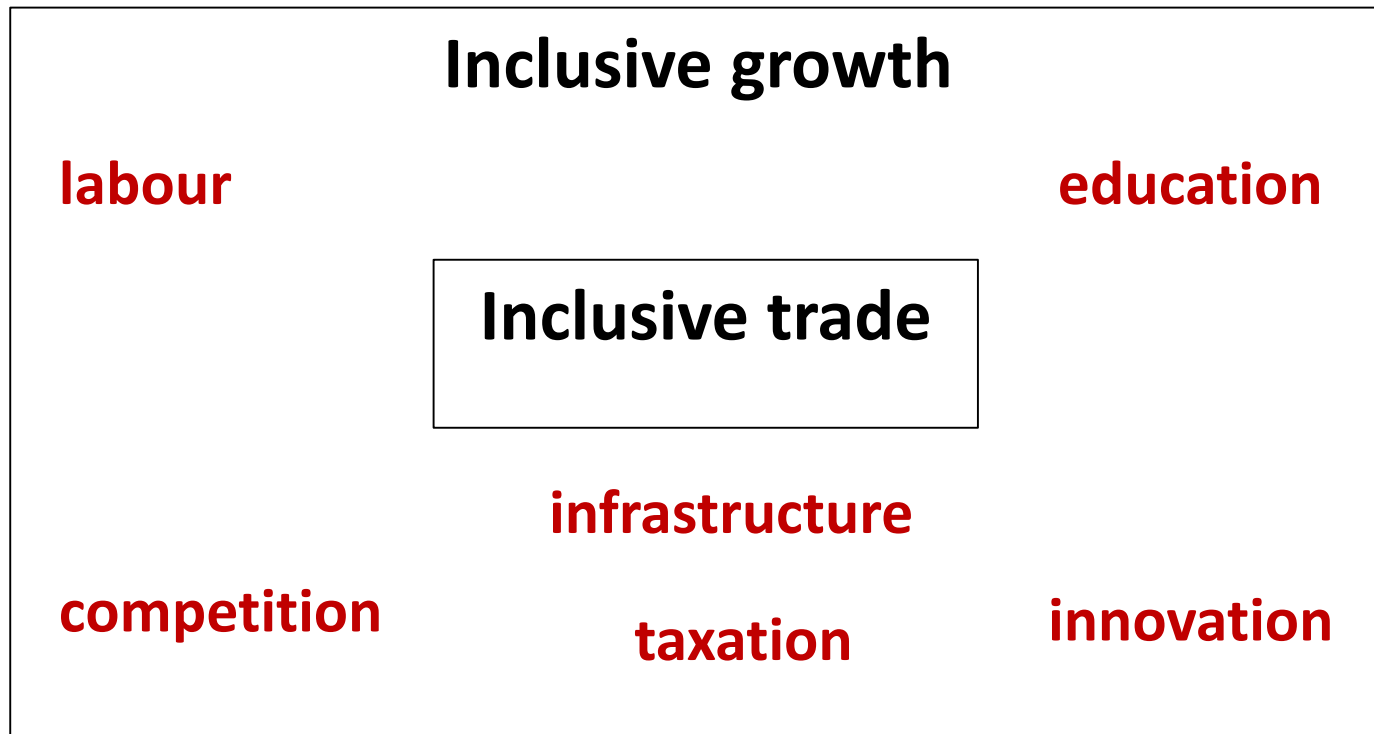
rent-seeking

reduced worker bargaining power

lax corporate governance

# Editors' overarching recommendation

## Develop more inclusive trade policy



# What's “new” in new, new trade?

## Firm-level differences

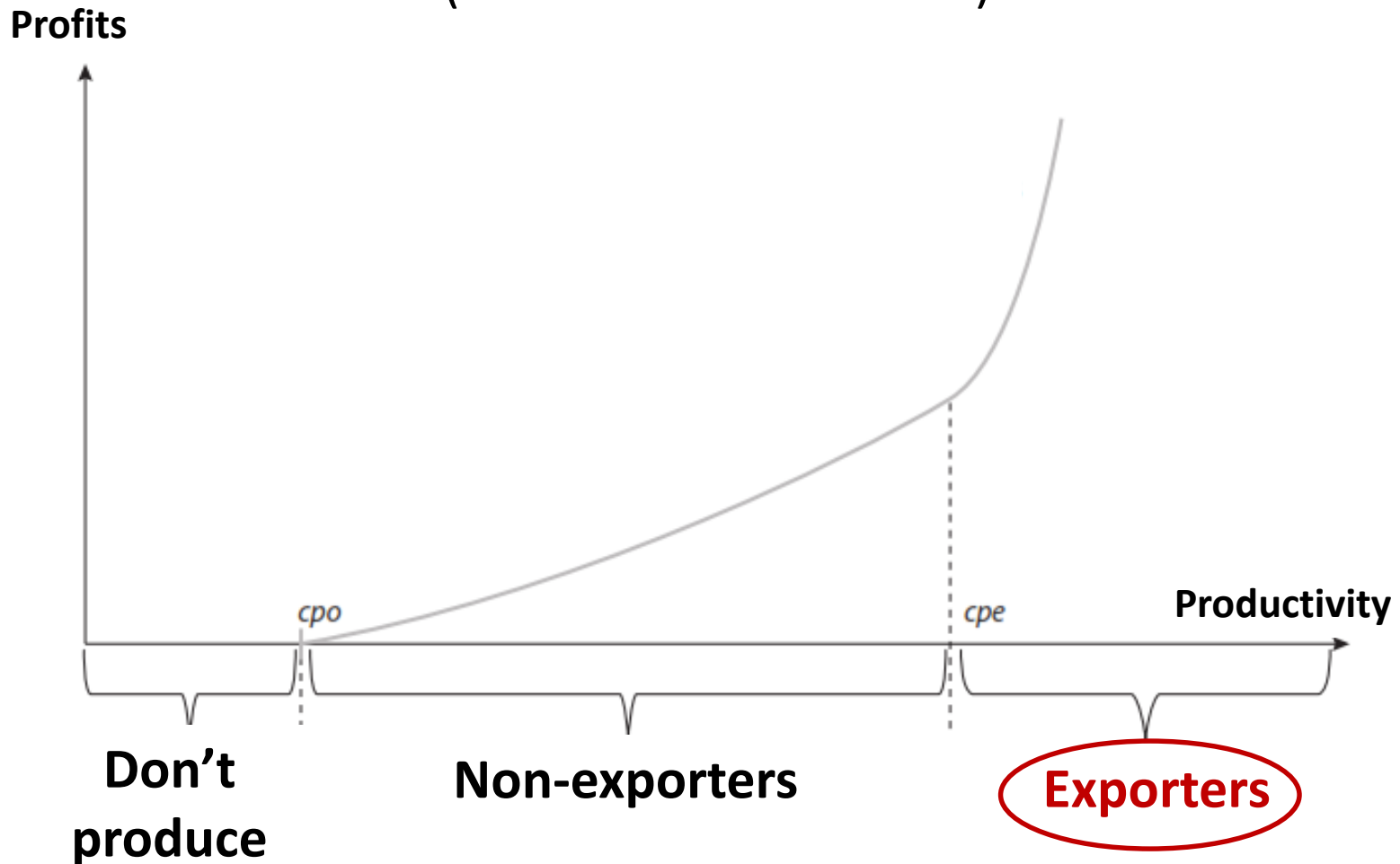
- size
- productivity

## Key mechanisms

- Reallocation within industries
- New (“extensive” margin) trade

# Only the most productive firms can jump over the fixed cost hurdle of exporting

(baseline Melitz model)



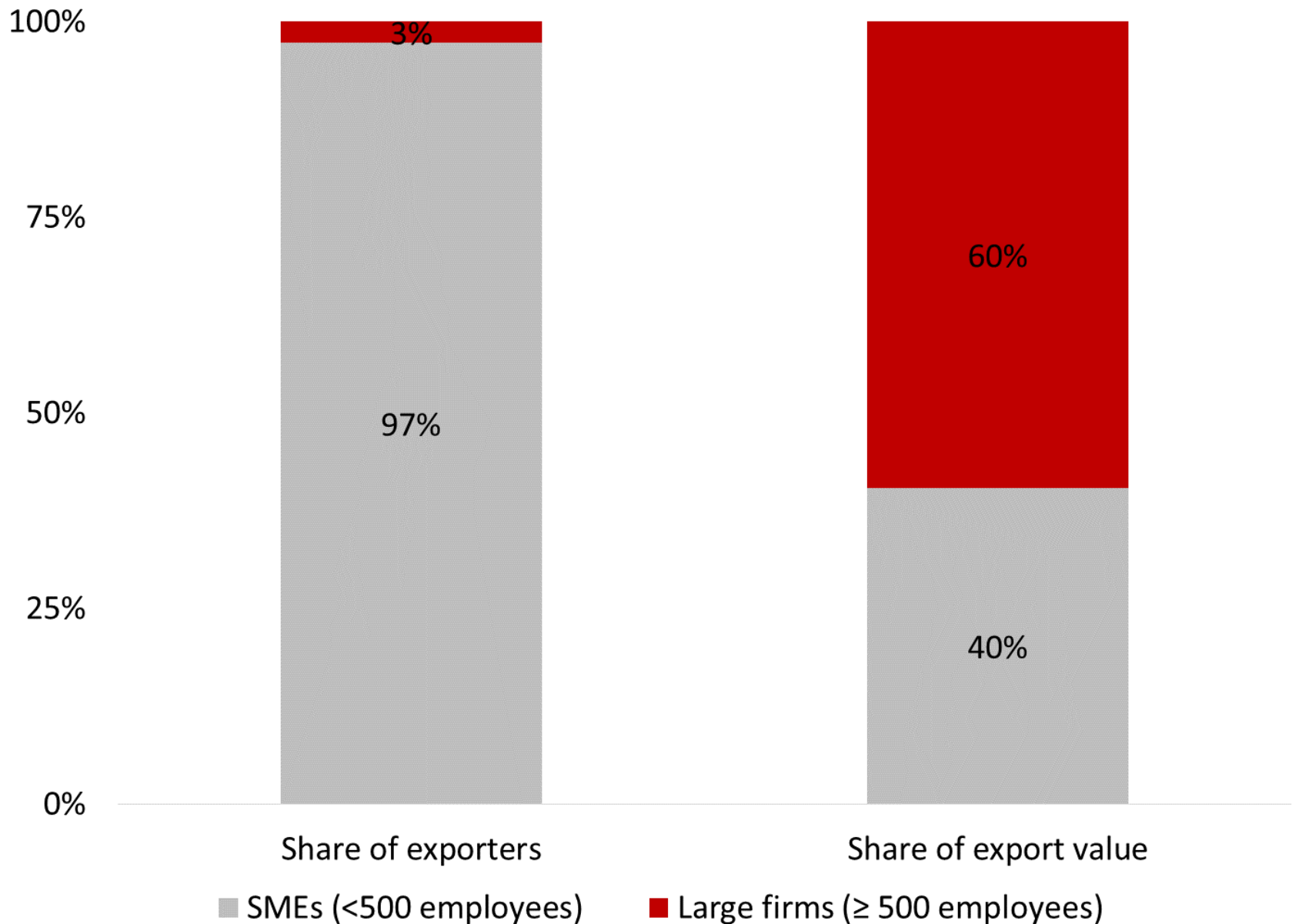
$c_{po}$  = cut-off productivity level for operating

$c_{pe}$  = cut-off productivity level for exporting



# Share of Canada's goods exports

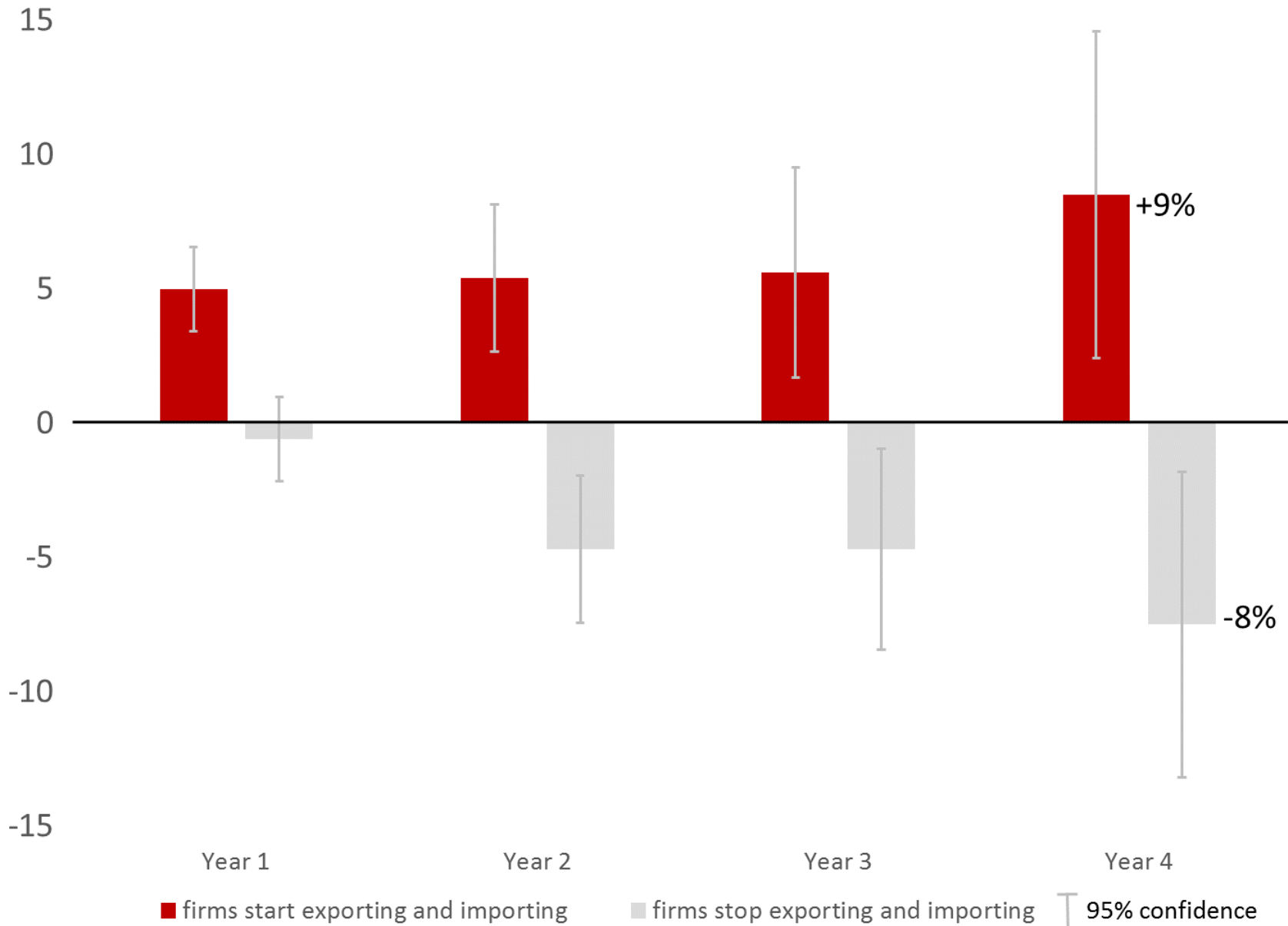
(2015, percent of total)



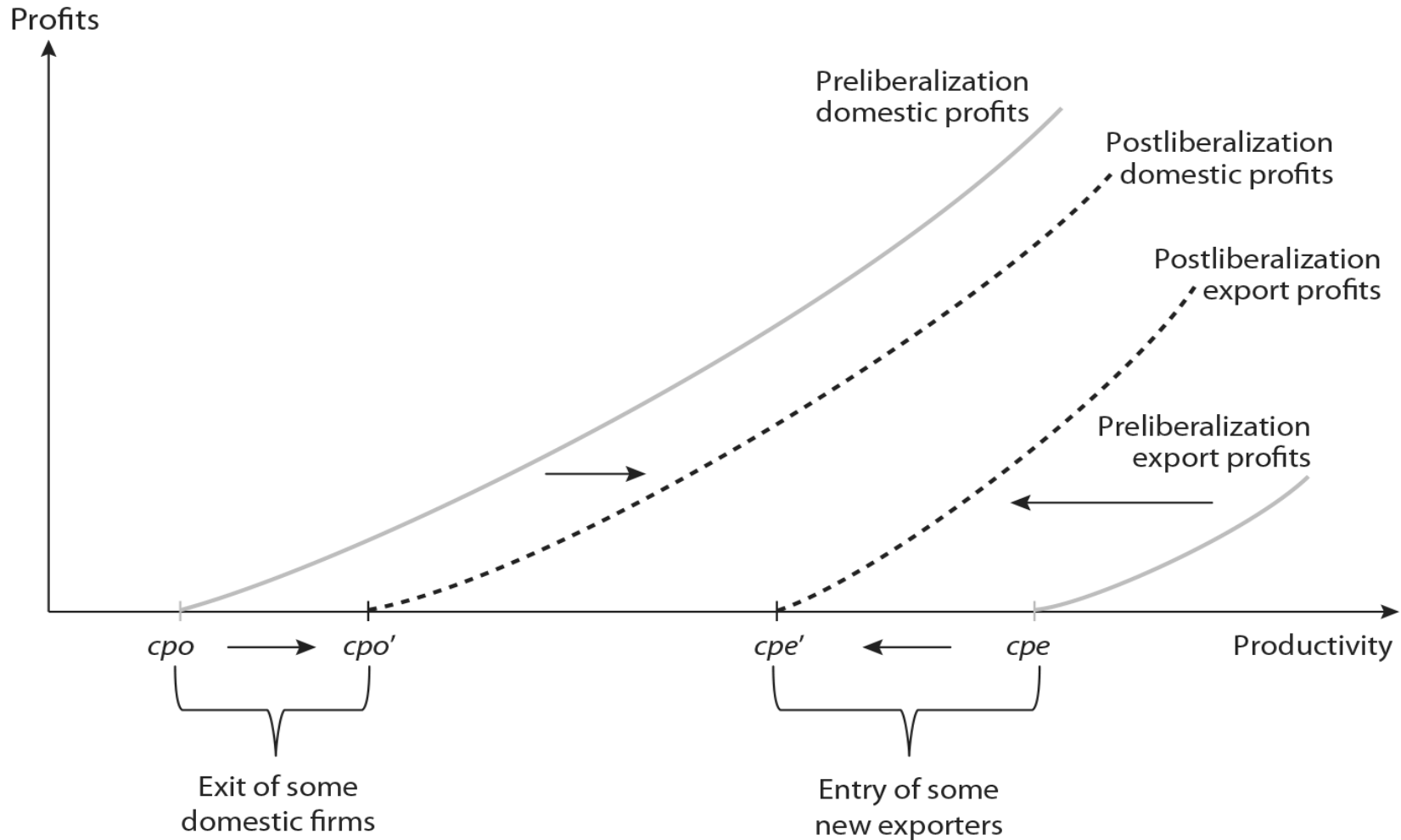
# Trade share and productivity, 1970-2015



# Change in trade status and productivity gaps among manufacturing firms, 2002-06



# Trade liberalization reallocates resources towards more productive firms



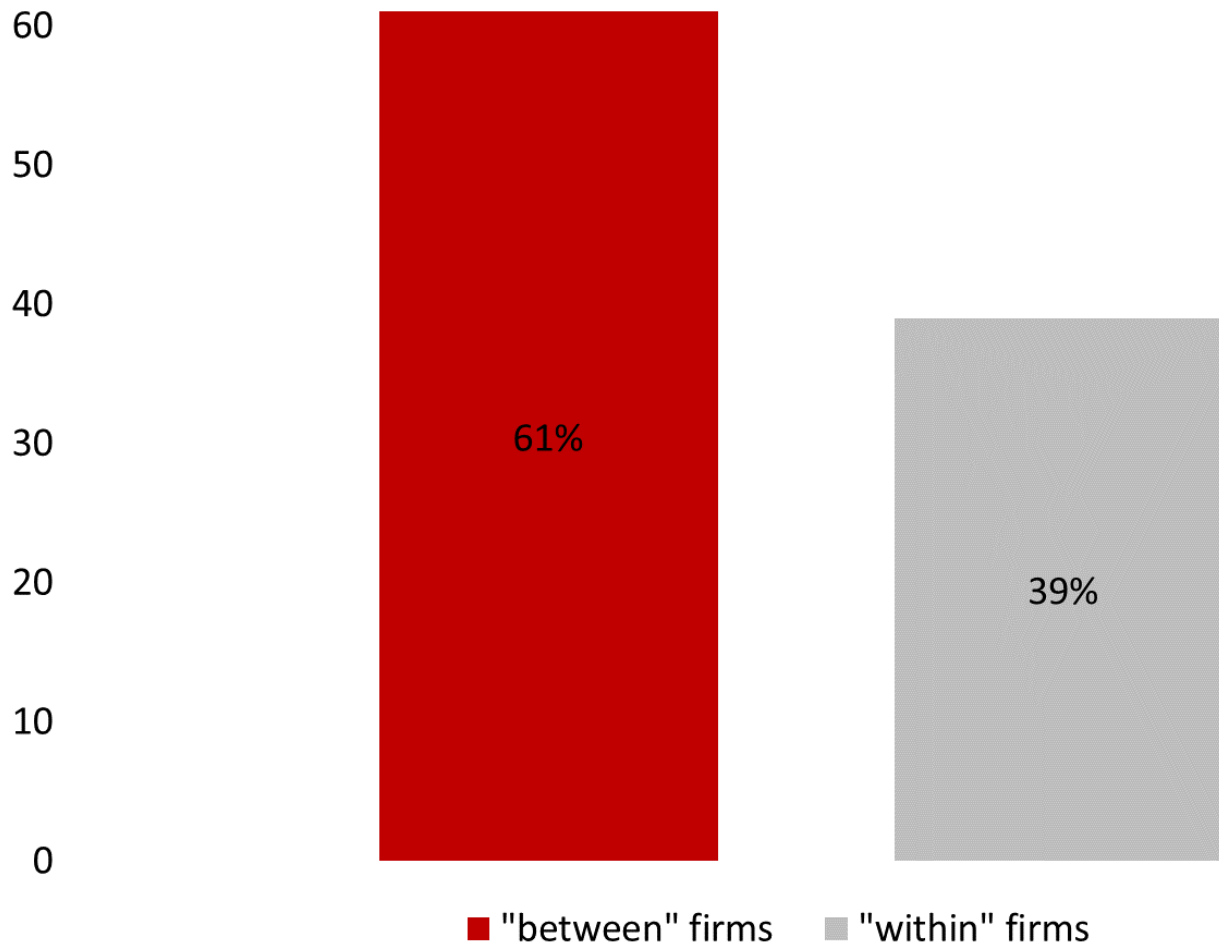
Source: Author.

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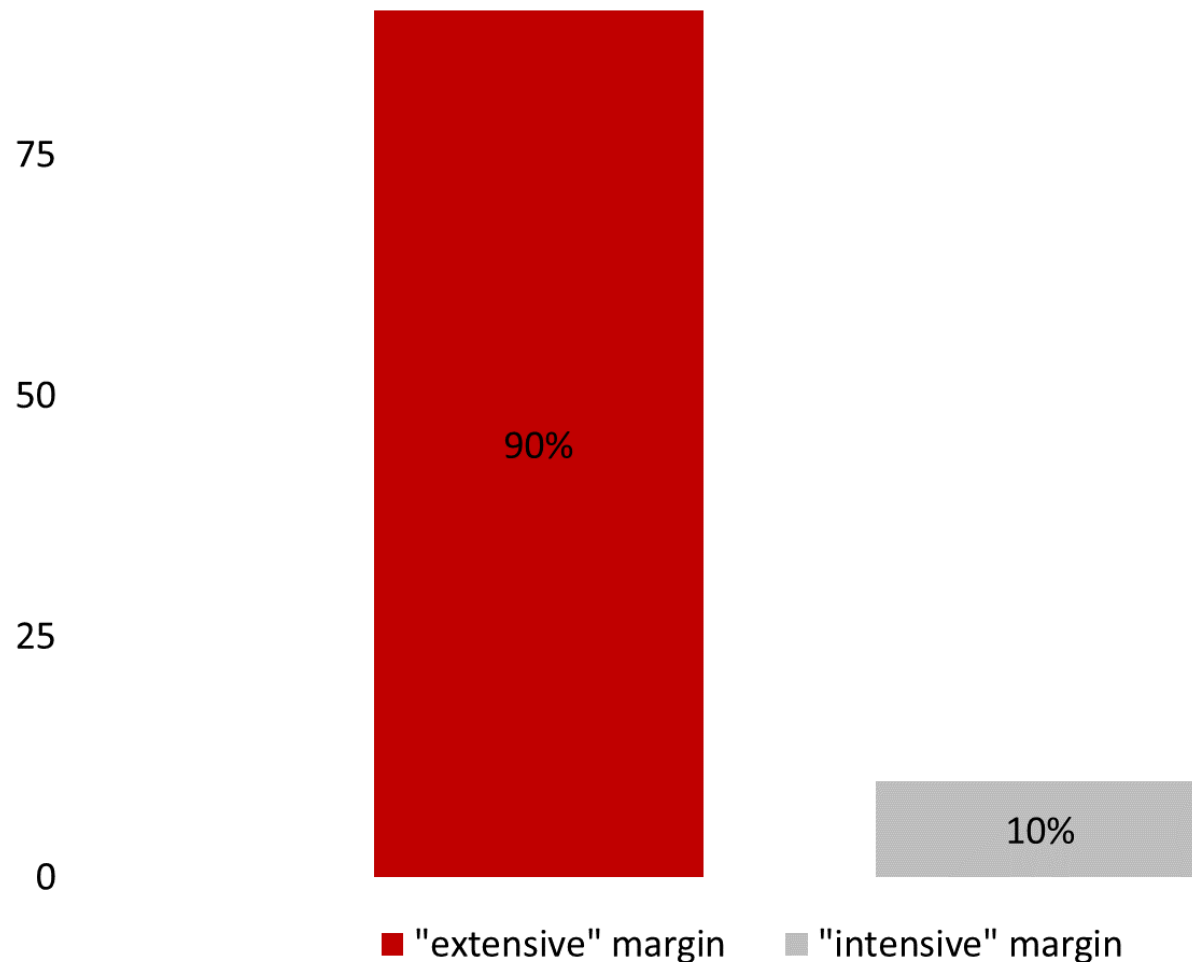
# How the Canada-US FTA raised our manufacturing productivity

(Mechanisms' estimated contributions to total)



# How the Canada-Chile FTA increased our exports

(Mechanisms' estimated contributions to total)



# Firm-level insights

- More productive firms trade...  
...*and* trade makes firms more productive.
- Trade liberalization raises productivity by creating new opportunities abroad...*and* increasing competitive pressure at home, which shifts resources between firms.
- Consider distributional impacts.
- Reduce fixed trade costs.

# Policy pillar:

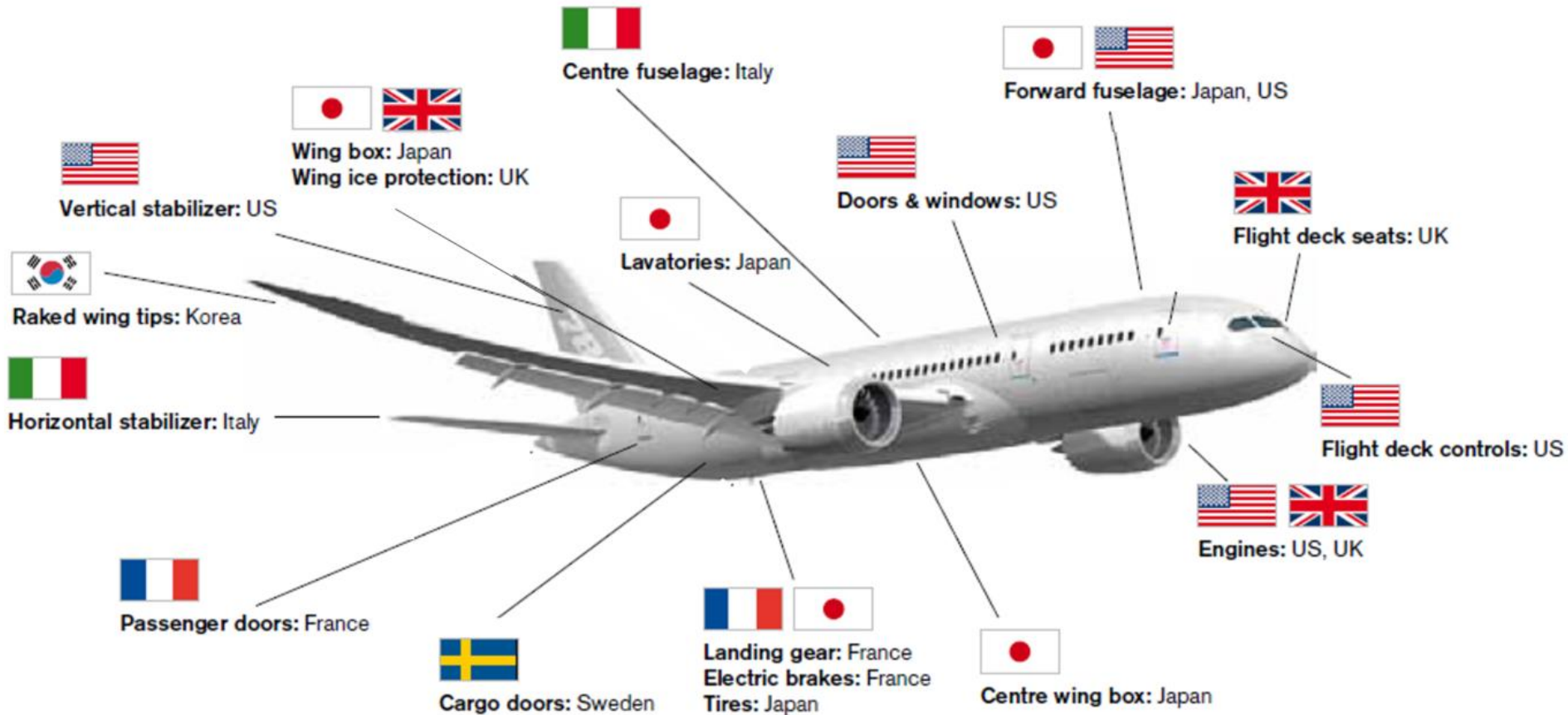
## *Facilitate resource reallocation*

1. Put resources to their best uses
2. Protect workers, not jobs



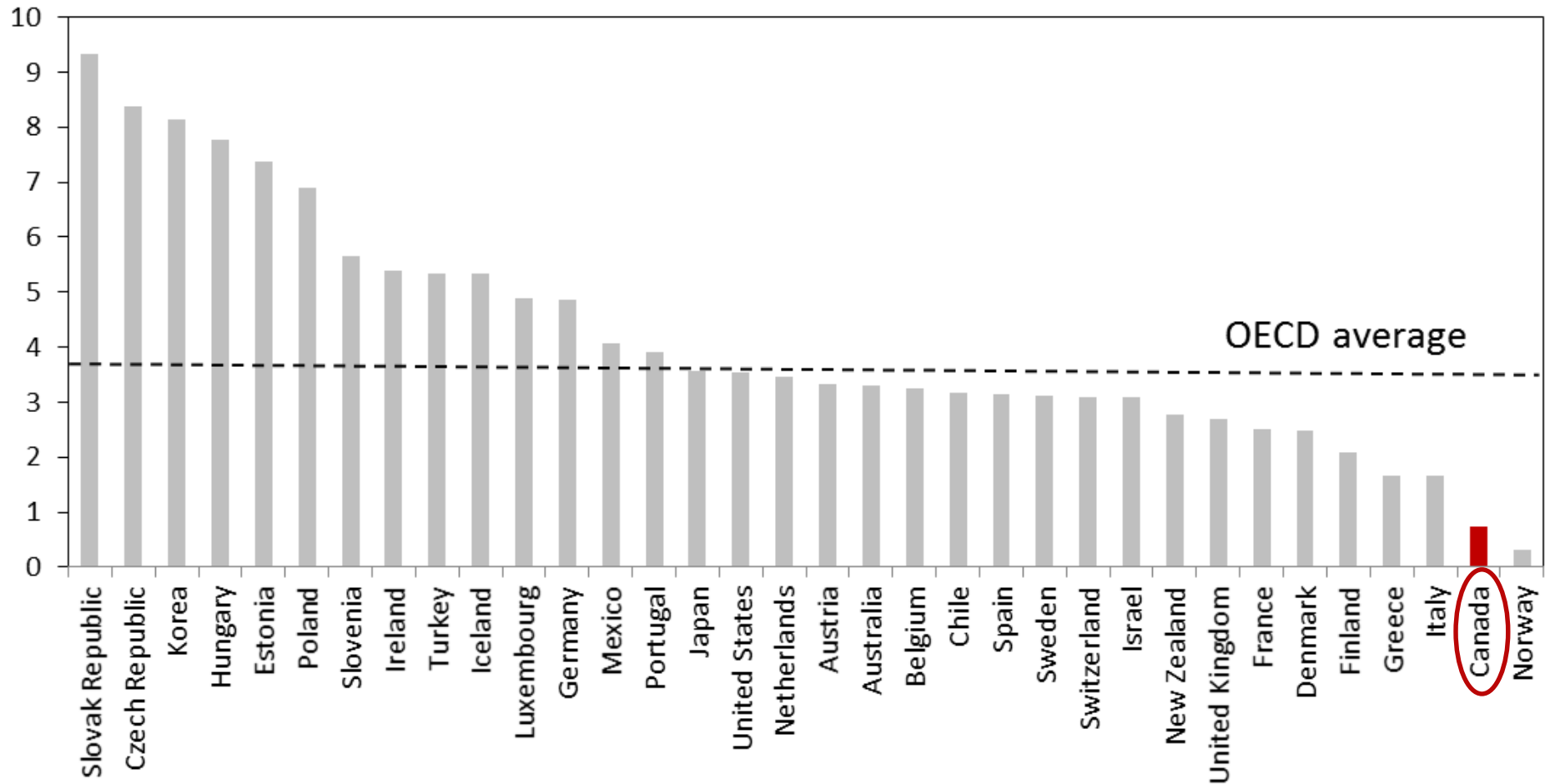
# Global value chain production

## Sourcing of Boeing 787 parts



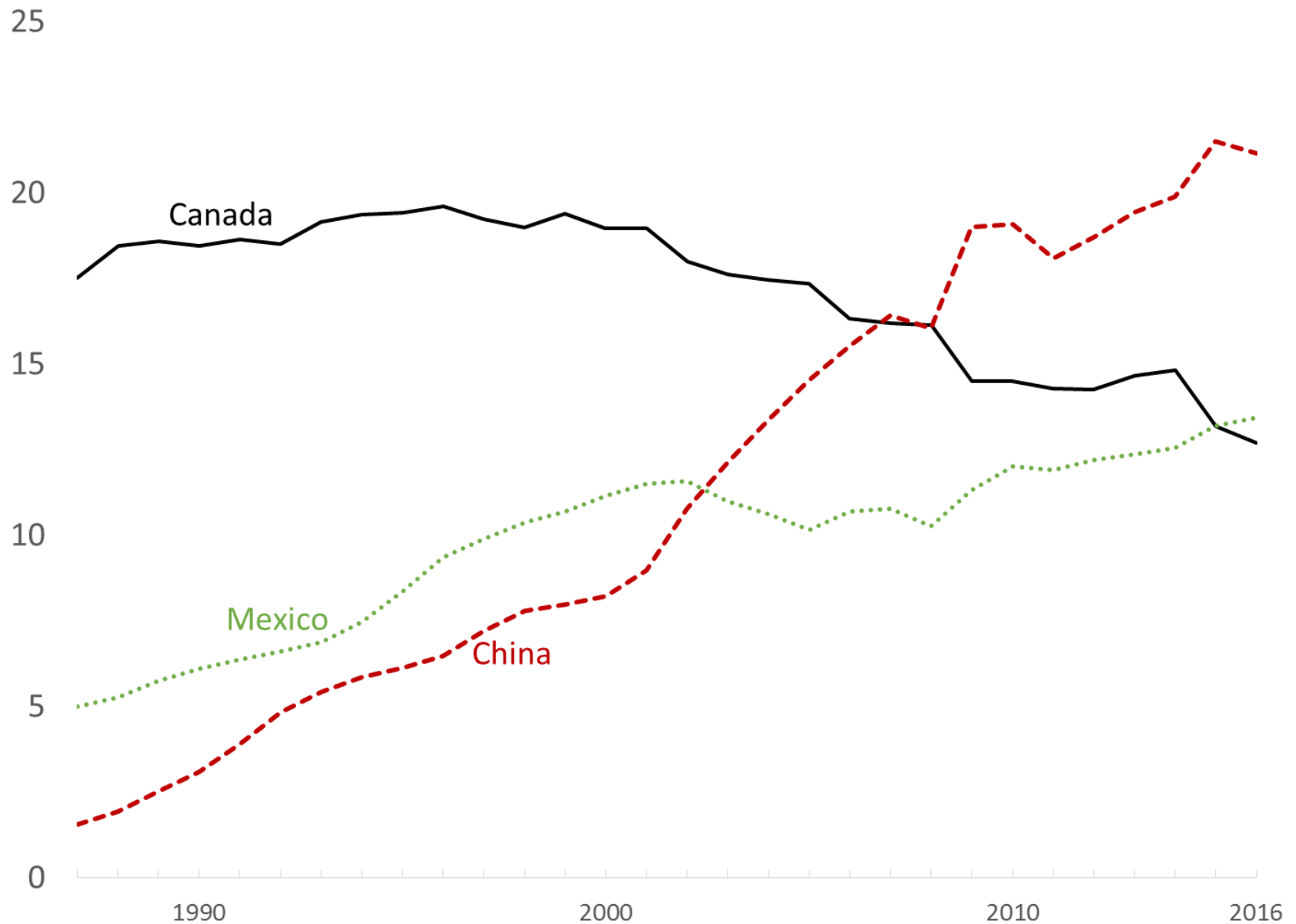
# Real export growth

(2000-15, average annual percent change)



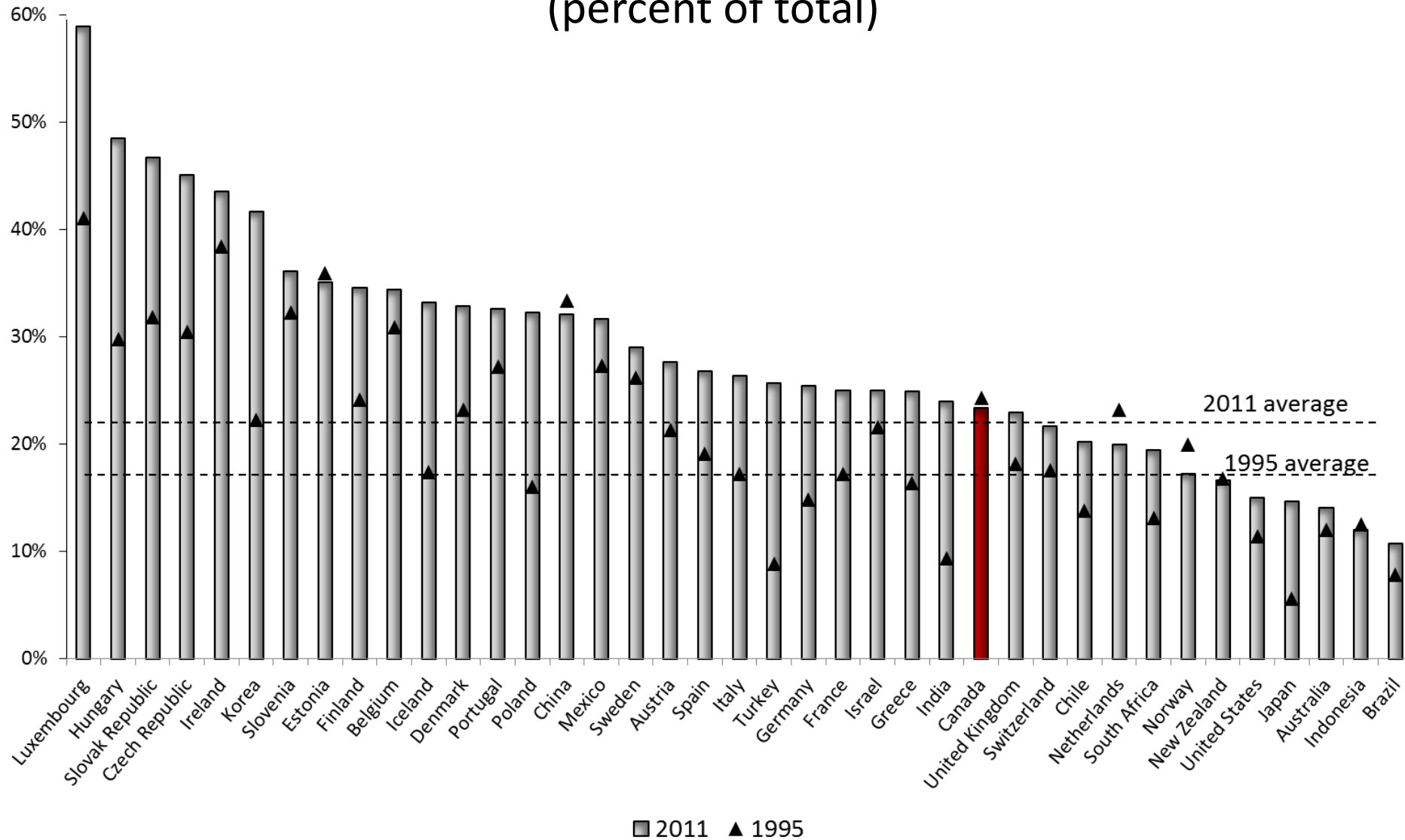
# Shares of US merchandise imports, 1987-2016

(percent of total)

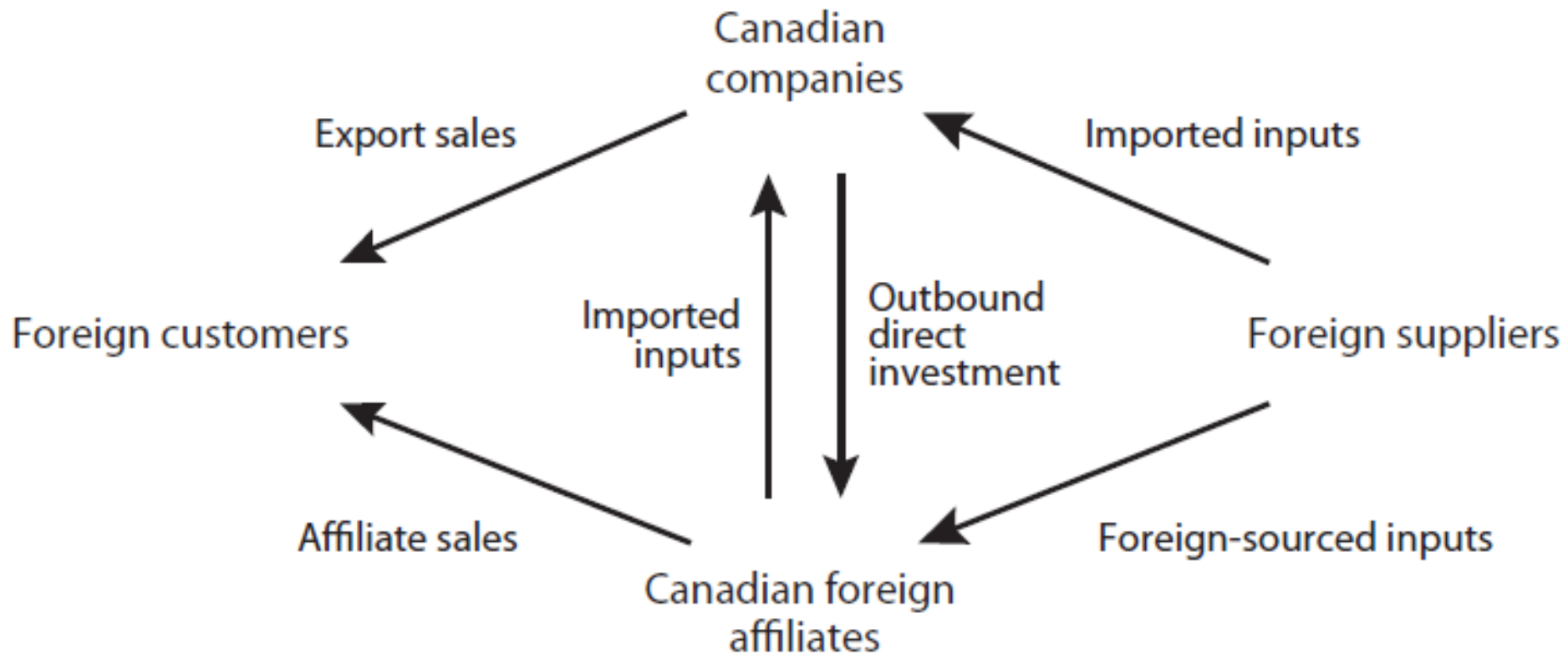


# Share of foreign value added in gross exports, 1995 and 2011

(percent of total)

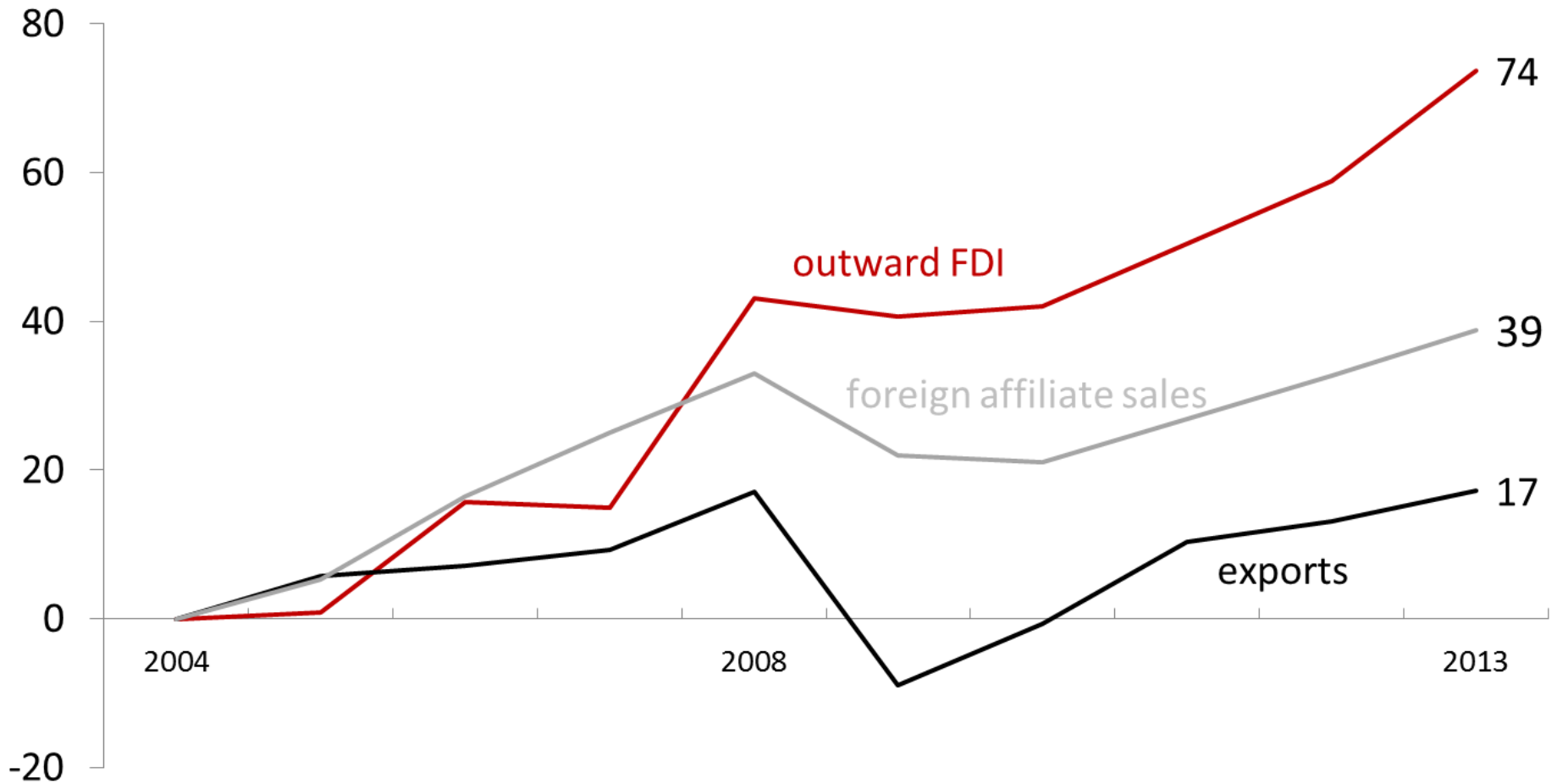


# EDC's integrative trade approach



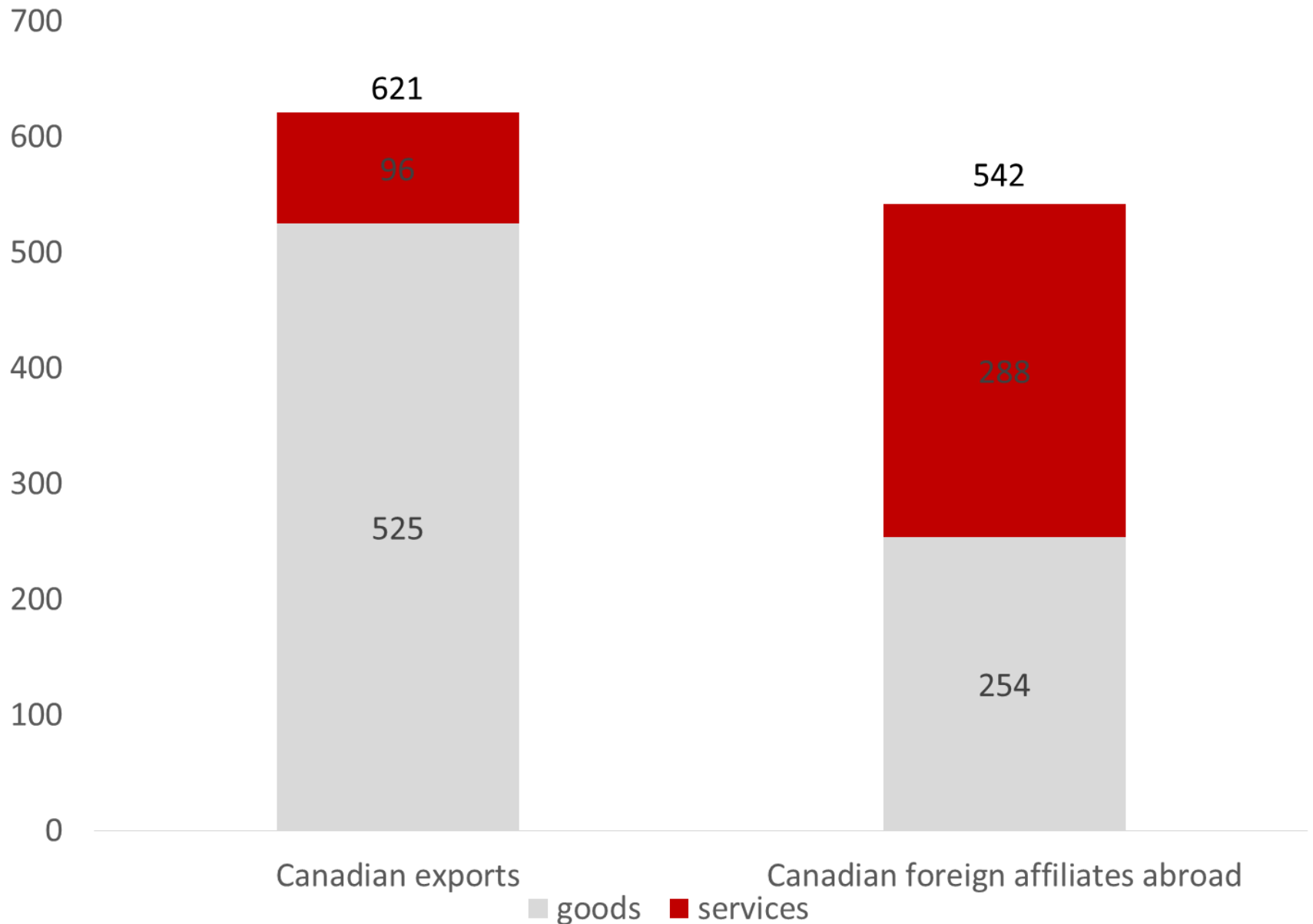
# Canada's outward FDI, foreign affiliate sales and exports

(2004-13, cumulative nominal percent change)



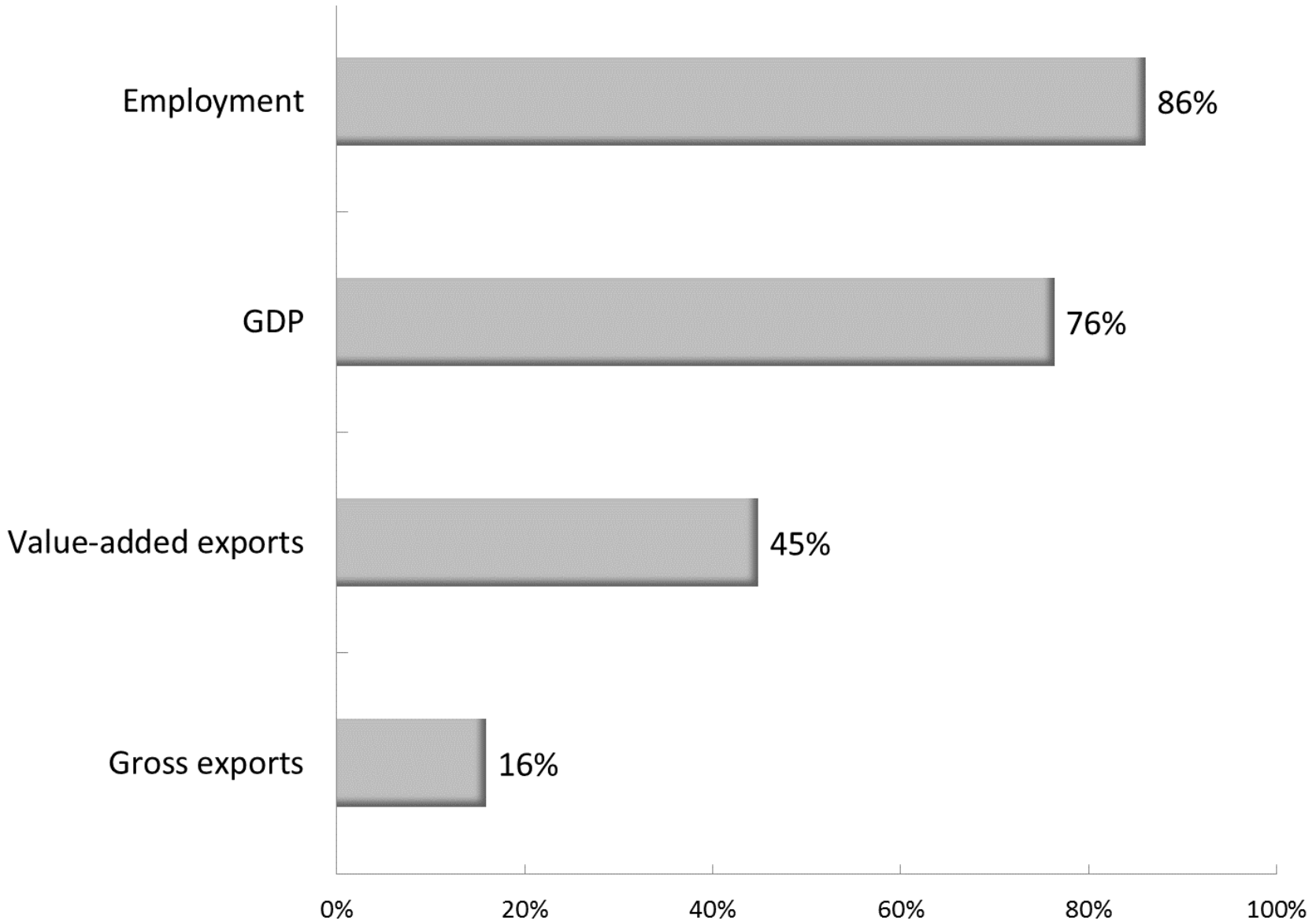
# Canadian exports and foreign affiliate sales

(2014, billions of dollars)



# Canada's share of services, by activity

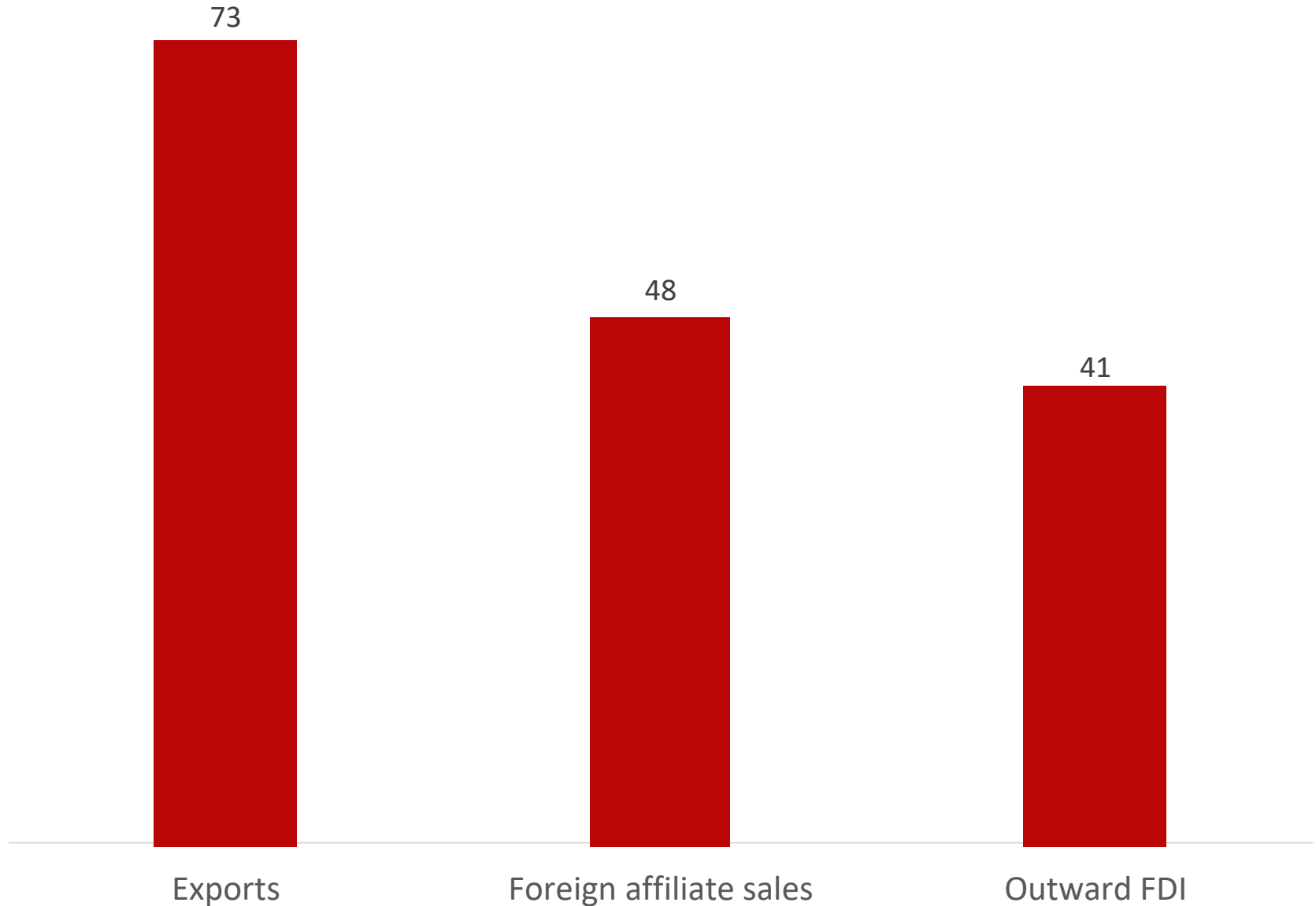
(percent of total)





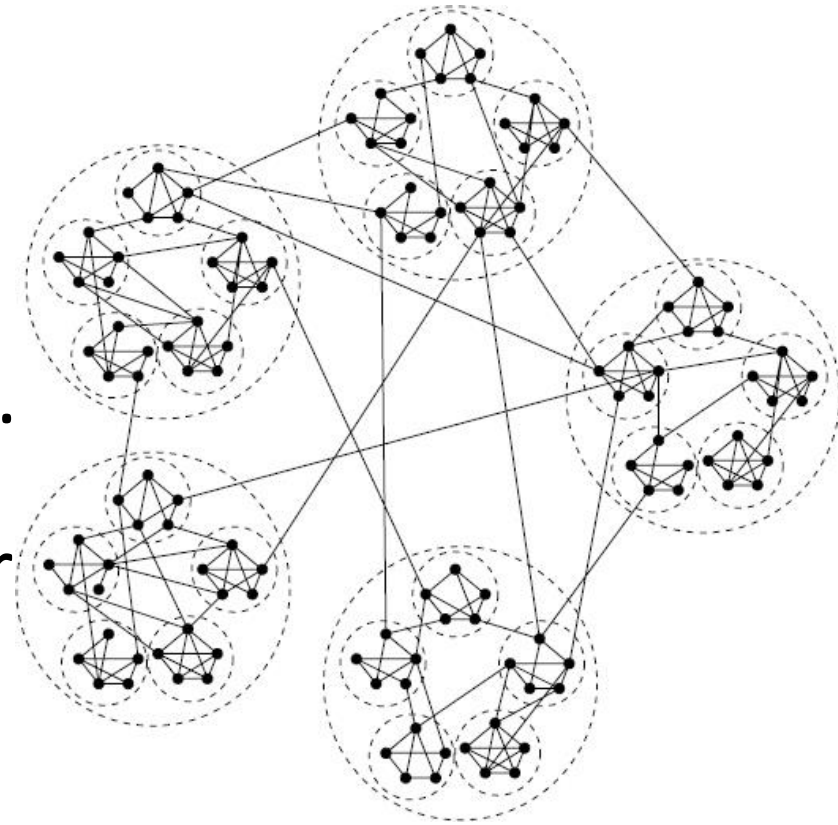
# Canada's dependence on the US

(2013, percent of total)



# GVC insights

- Local linkages embedded in larger networks.
- Competition between *value chains*, not only firms.
- Connectedness is key to our productivity.
- Strength in partnerships.

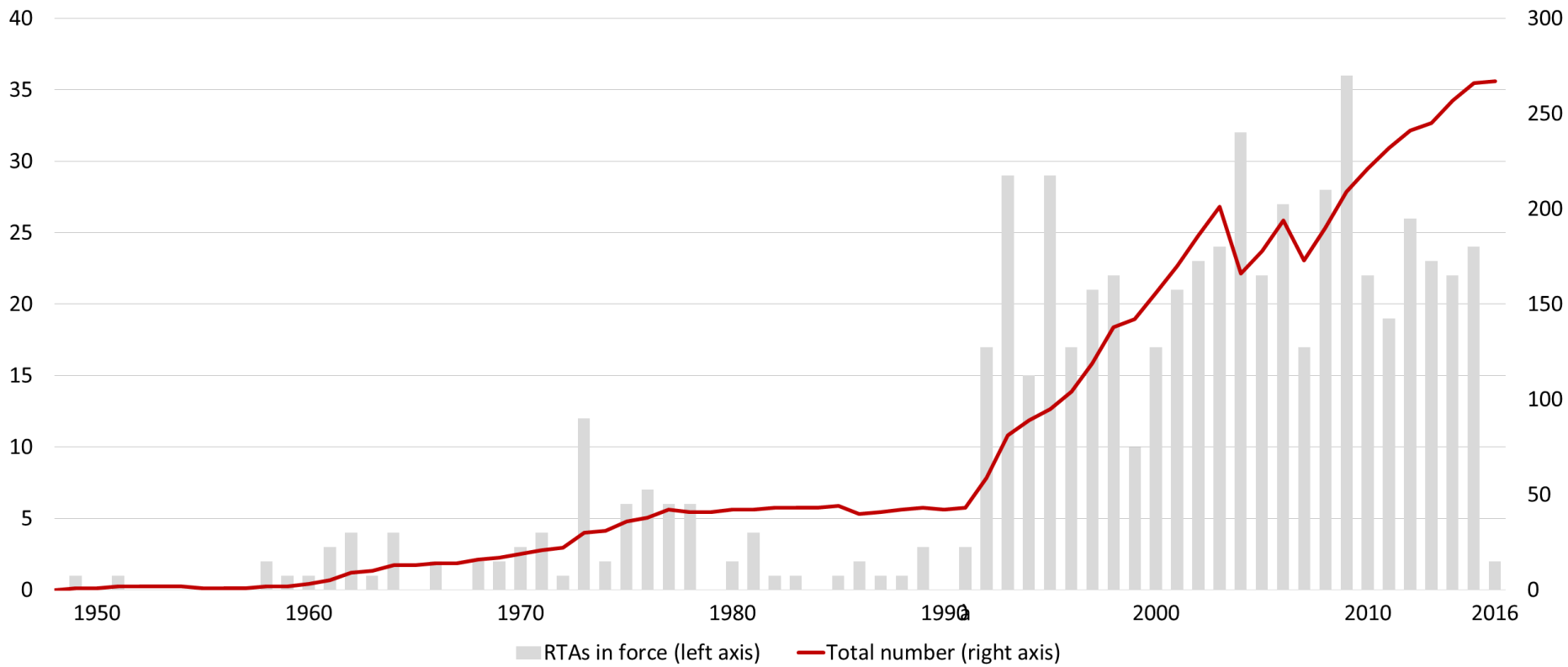


## **Policy pillar:**

### ***Promote international connectivity***

1. Liberalize exports and imports
2. Facilitate the transmission of goods, capital and information at, and behind, the border
3. Relax rules of origin
4. Protect outward FDI; relax inbound restrictions in “networked” services sectors
5. Help companies identify/connect to strong GVCs

# Previous proliferation of regional trade agreements...



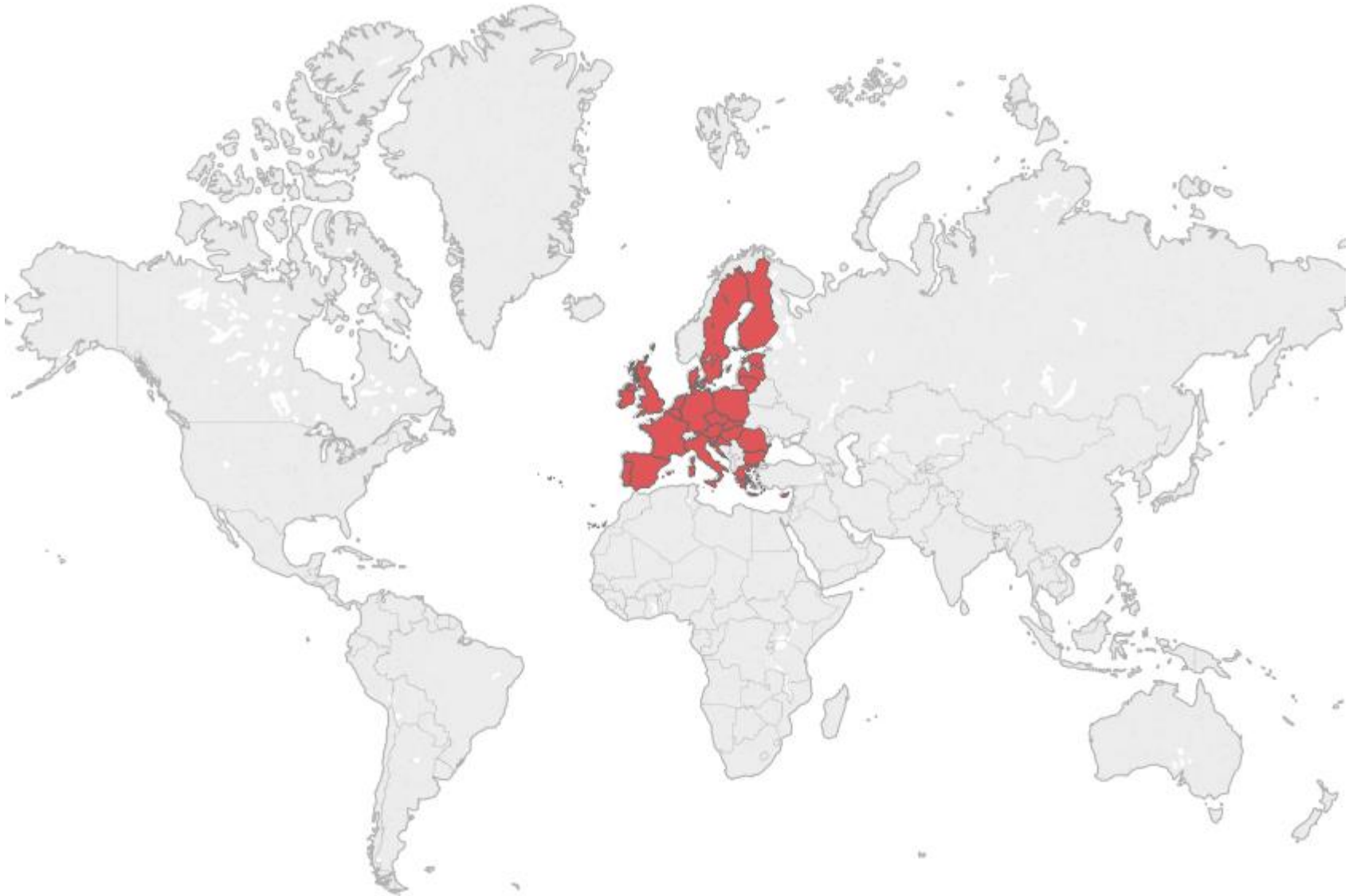
**...but many talks now are stalled.**

<b>Trade deal</b>	<b>Status</b>
CETA	proceeding
TPP, TiSA, TTIP	on hold
WTO (Doha)	on life support
NAFTA	in waiting

**NAFTA is front of mind..**



**...shouldn't obscure the EU's importance**



**...or overlook where trade growth is fastest**

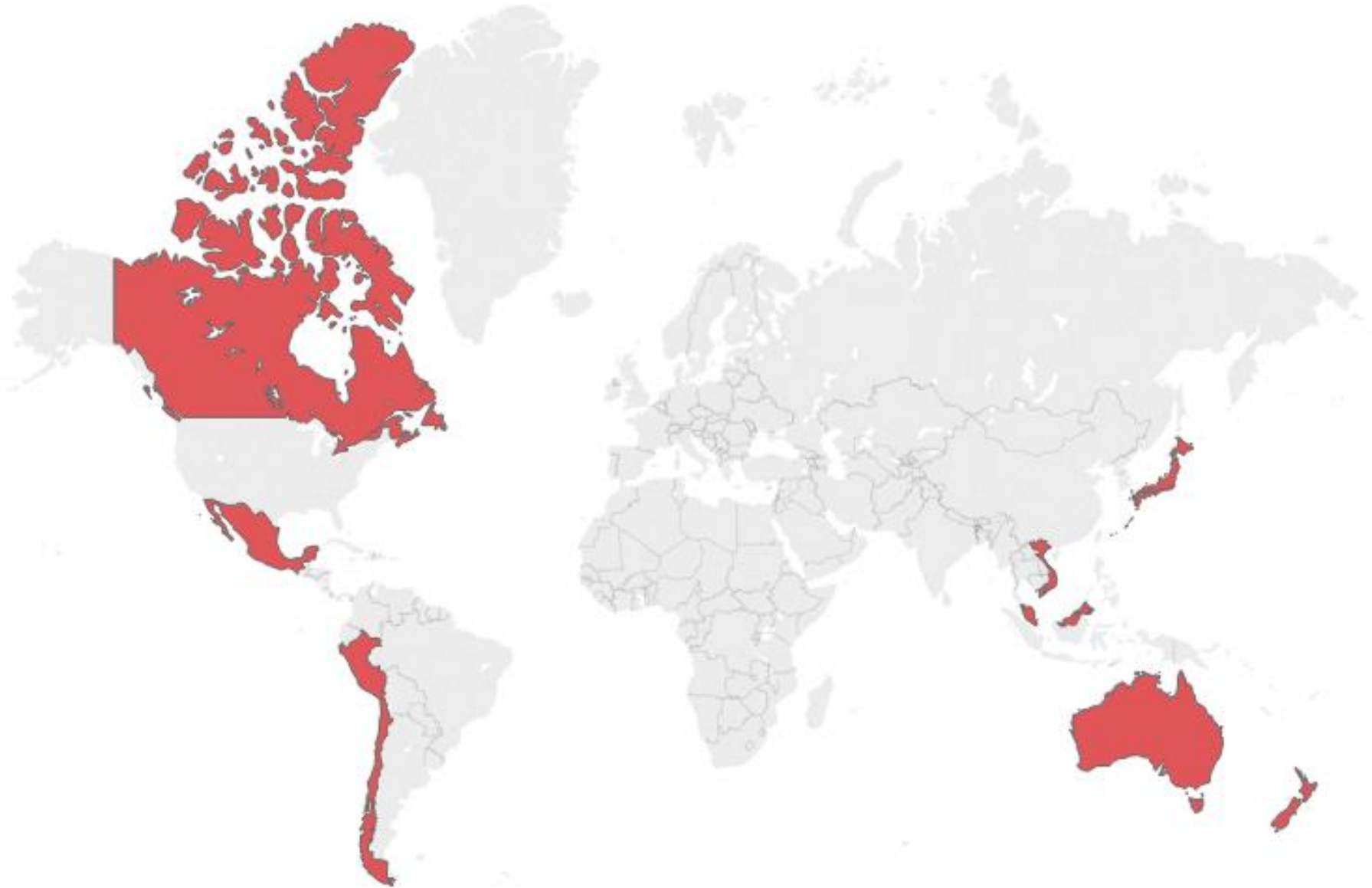




**...the value in trade with dvlpng countries**



# ...or the potential residual value of TPP



# **Policy pillar:**

## ***Work with other countries***

1. Think and act multilaterally first
2. Maintain preferential North American market access
3. Ensure CETA's smooth implementation
4. Pay special attention to Asia: engage China, but be cautious of further bilaterals
5. Make trade and dvlpt mutually supportive

# **Policy pillar:** ***More inclusive trade policy***

1. Support SMEs
2. Apply a gender lens to trade
3. Enhance public engagement
4. Study trade's distributional impacts
5. Ensure trade is sustainable

# Conclusion

Canada needs a trade policy agenda that:

- is more inclusive
- facilitates resource reallocation
- promotes international connectivity
- builds a better global trading system.

# Our Policy Priorities

## Develop more inclusive trade policy

- *Support SMEs*
- *Apply a gender lens to trade*
- *Enhance public engagement*
- *Study trade's distributional impacts*
- *Ensure trade is sustainable*

## Facilitate resource reallocation

- *Project workers not jobs*

## Promote international connectivity

- *Make Canada a more desirable place to perform high-value-added tasks*

## Work with other countries

- *Multilateral first*
- *Maintain preferential North American market access*
- *Ensure CETA's smooth implementation*
- *Pay special attention to Asia, but proceed cautiously on further bilaterals*
- *Make trade and development policy mutually supportive*