WELCOME TO THE JUNGLE:
THE FRAGILE STATE OF
GLOBAL TRADE AND
CANADA’S CHALLENGES

Queen’s Institute on Trade Policy
Kingston, Ontario
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FRAGILE STATE OF GLOBAL TRADE
“WEAPONIZED” TRADE UNCERTAINTY

Trade uncertainty indices

Source: PolicyUncertainty.com; Haver Analytics
STEEL AND ALUMINUM TARIFF IMPACTS

Canadian steel and aluminum exports to US

Millions CAD

February 2018
Commerce dept. reports

June 2018
US tariffs on

May 2019
US tariffs off
Share of US goods imports from China subject to special tariffs

Percent of total

Source: Peterson Institute of International Economics.
Quarterly merchandise trade

Billions USD

US imports from China

US exports to China

Source: US Bureau of Economic Analysis.
KEY SUPPLY CHAIN HUBS

Source: Santoni, Gianluca, Dari Taglioni (2015)
FIRMS SHIFTING PRODUCTION

Moves from China to Vietnam, Thailand, etc.

US imports of crocs
GLOBAL MOMENTUM SLOWING

Year-over-year percent change

Source: Bank of Canada, October Monetary Policy Report
GLOBAL TRADE FORECAST MARKDOWNS

Global trade volume, annual growth

- April 2018 forecast
- Sept 2018
- Apr 2019
- Sept 2019

Source: WTO
GLOBAL GROWTH SHIFT
POWER SHIFT TO EMERGING MARKETS

GDP*

Trade

Inward FDI

"Quad" sets agenda

*At market, not PPP, exchange rates
Next 5 years, PPP basis: EMs expected to drive ~70% of global GDP growth!
CANADA FALLING BEHIND
OECD’S FALLING SHARE OF GLOBAL EXPORTS

Goods and service export volumes, percent of global total
CANADA LAGS OECD

Goods and service export volumes, percent of global total

OECD (left)

Canada (right)

$150B
CANADA-OECD GAP IN GOODS, NOT SERVICE EXPORTS

Cumulative percent growth

Goods

- World
- Non-OECD
- OECD
- Canada 3.4%

Services

- Non-OECD
- World
- Canada 11.8%
CANADA’S GOODS EXPORTS HIGHLY US-CONCENTRATED

OECD countries’ goods export market concentration,
Herfindahl-Hirschman index

OECD average
CANADA’S EXPORTS TO US STALLED

Cumulative percent growth

Non-U.S.

U.S.
CANADA LOSING US MARKET SHARE

Share of U.S. goods and services imports

- Canada
- China
- Mexico

1999 2001 2003 2005 2007 2009 2011 2013 2015 2017
## CANADA’S EXPORT DESTINATIONS

### Losing

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Canadian exports 2000</th>
<th>Share of Canadian exports 2018</th>
<th>Δ export share ppts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. U.S.</td>
<td>84.6%</td>
<td>73.9%</td>
<td>-10.7%</td>
</tr>
<tr>
<td>2. Japan</td>
<td>2.3%</td>
<td>2.1%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

### Winning?

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Canadian exports 2000</th>
<th>Share of Canadian exports 2018</th>
<th>Δ export share ppts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. China</td>
<td>1.0%</td>
<td>4.2%</td>
<td>3.3%</td>
</tr>
<tr>
<td>2. U.K.</td>
<td>2.0%</td>
<td>3.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>3. Mexico</td>
<td>0.5%</td>
<td>1.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>4. India</td>
<td>0.2%</td>
<td>0.8%</td>
<td>0.7%</td>
</tr>
<tr>
<td>5. Switzerland</td>
<td>0.2%</td>
<td>0.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>6. South Korea</td>
<td>0.6%</td>
<td>1.0%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>
CANADA’S EXPORT PRODUCTS SURPRISINGLY DIVERSIFIED

OECD countries’ goods export product concentration, Herfindahl-Hirschman index

OECD Average
## Canada’s Export Performance, Key Industries

### Losing

<table>
<thead>
<tr>
<th>Industry</th>
<th>Share of Canadian exports*</th>
<th>Δ export share ppts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Autos</td>
<td>19.5%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>2. Forestry &amp; products</td>
<td>11.5%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>3. Tech hardware</td>
<td>7.3%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>4. Clothes, textiles</td>
<td>1.2%</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

### Winning

<table>
<thead>
<tr>
<th>Industry</th>
<th>Share of Canadian exports*</th>
<th>Δ export share ppts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Energy</td>
<td>10.3%</td>
<td>6.4%</td>
</tr>
<tr>
<td>2. Mining, minerals, metals</td>
<td>6.4%</td>
<td>4.8%</td>
</tr>
<tr>
<td>3. Agriculture</td>
<td>4.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>4. High-skill services</td>
<td>4.6%</td>
<td>3.1%</td>
</tr>
<tr>
<td>5. Pharma, medical equip</td>
<td>0.5%</td>
<td>1.3%</td>
</tr>
<tr>
<td>6. Tourism</td>
<td>2.8%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

### Canadian Tech Exports

![Graph showing Canadian tech exports from 1995 to 2015](chart.png)

- **Goods**
- **Services**

$ billions

### Notes

- The table highlights industries that have gained or lost market share in Canadian exports from 2000 to 2018.
- **Losing** industries include Autos, Forestry & products, Tech hardware, and Clothes, textiles.
- **Winning** industries include Energy, Mining, minerals, metals, Agriculture, High-skill services, Pharma, medical equip, and Tourism.

**Source:** EDC
THE BEAVER HAS WORK TO DO
CANADA NOT TAKING ADVANTAGE OF GLOBAL GROWTH

Global and Canadian export-weighted GDP growth
Average annual growth, percent

<table>
<thead>
<tr>
<th>Period</th>
<th>World</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>1990s</td>
<td>3.1</td>
<td>2.9</td>
</tr>
<tr>
<td>2000s</td>
<td>3.9</td>
<td>1.9</td>
</tr>
<tr>
<td>2010s</td>
<td>3.7</td>
<td>2.1</td>
</tr>
<tr>
<td>2020-25</td>
<td>3.9</td>
<td>2.2</td>
</tr>
</tbody>
</table>

EDC
CANADIAN FIRMS ARE ADJUSTING HOW THEY SERVE FOREIGN MARKETS
FASTEST GROWING ACTIVITIES: INVESTMENT & SERVICES

2000-18, cumulative nominal percent change

- Investment: Outward 7.4%
- Inward 5.8%
- Services: Imports 4.8%
- Exports 4.3%
- Goods: Imports 2.9%
- Exports 1.9%
CANADA SHIFTING AWAY FROM U.S.

U.S. share of Canada’s total activities, percent

<table>
<thead>
<tr>
<th>Inward</th>
<th>FDI</th>
<th>Services imports</th>
<th>Goods imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outward</td>
<td>CDIA</td>
<td>Services exports</td>
<td>Goods exports</td>
</tr>
</tbody>
</table>

- FDI: 60% (2000) to 60% (Change 2018-2000)
- Services imports: 60% (2000) to 60% (Change 2018-2000)
- Goods imports: 60% (2000) to 60% (Change 2018-2000)
- CDIA: 50% (2000) to 50% (Change 2018-2000)
- Services exports: 80% (2000) to 80% (Change 2018-2000)
LEVERAGING CANADA’S NEW FTAS
EXPORTER RESPONSES TO NEW TRADE DEALS

Percent of respondents

- Pay more attention to these markets
  - CPTPP: 23%
  - CETA: 26%

- Export more
  - CPTPP: 15%
  - CETA: 18%

- Start exporting
  - CPTPP: 12%
  - CETA: 14%

- Start importing
  - CPTPP: 12%
  - CETA: 9%

- Import more
  - CPTPP: 11%
  - CETA: 9%

Multiple responses permitted.
BIGGER CETA TARIFF CUTS, FASTER EXPORT GROWTH

\[
y = -6.4 + 2.2x
\]

\[R^2 = 0.29\]

2018 export growth (%)

Source: Van Assche (2019)
BEEF EXPORTS MOOoving UP

Monthly Canadian beef exports to Japan

$ Millions

CPTPP signed

CPTPP in force

EMERGING MARKET FOCUS
Past two decades, EDC supported ~40% of Canada’s exports and direct investment in emerging markets.
## CAN CANADA DEFY GRAVITY?

### Goods vs. Services

<table>
<thead>
<tr>
<th>Variable</th>
<th>Canadian exports</th>
<th>Goods exports</th>
<th>Service exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importer GDP</td>
<td>1.06***</td>
<td>1.06***</td>
<td>0.77***</td>
</tr>
<tr>
<td>Common language</td>
<td>0.82***</td>
<td>0.70***</td>
<td>1.25***</td>
</tr>
<tr>
<td>EDC exposure</td>
<td>0.08**</td>
<td>0.07**</td>
<td>-0.01</td>
</tr>
<tr>
<td>Distance</td>
<td>-0.76***</td>
<td>-0.91***</td>
<td>-0.45**</td>
</tr>
<tr>
<td>Landlocked</td>
<td>-0.42***</td>
<td>-0.33***</td>
<td>0.10</td>
</tr>
<tr>
<td>Observations</td>
<td>3,197</td>
<td>3,191</td>
<td>946</td>
</tr>
<tr>
<td>Countries</td>
<td>170</td>
<td>169</td>
<td>58</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.87</td>
<td>0.87</td>
<td>0.74</td>
</tr>
</tbody>
</table>

### Developed vs. Emerging

<table>
<thead>
<tr>
<th>Variable</th>
<th>Exports to DMs</th>
<th>Exports to EMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importer GDP</td>
<td>1.05***</td>
<td>1.06***</td>
</tr>
<tr>
<td>Common language</td>
<td>0.90***</td>
<td>0.69***</td>
</tr>
<tr>
<td>EDC exposure</td>
<td>0.02</td>
<td>0.08***</td>
</tr>
<tr>
<td>Distance</td>
<td>-0.56***</td>
<td>-1.11***</td>
</tr>
<tr>
<td>Landlocked</td>
<td>-0.42</td>
<td>-0.24</td>
</tr>
<tr>
<td>Observations</td>
<td>664</td>
<td>2,527</td>
</tr>
<tr>
<td>Countries</td>
<td>35</td>
<td>134</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.89</td>
<td>0.84</td>
</tr>
</tbody>
</table>

Variables in logs, except dummies. ***=1% significance level; **=5% level.
IMPORTANCE OF SCALE AND SCOPE
GLOBALLY-ENGAGED FIRMS DO BETTER IN MANY DIMENSIONS

- Output
- Hire
- Invest abroad
- Import
- Invest domestic
- Hire immigrant
- Export mkt B
- Export mkt A

[Diagram showing flow between the points mentioned above]
### SUPERSTARS VS. TYPICAL FIRMS

Most Canadian exporters:
- reach one export market,
- export a few products.

#### Number of exporters, share of total

<table>
<thead>
<tr>
<th>Number of export products</th>
<th>1-5</th>
<th>6-10</th>
<th>11+</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>72%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>6-10</td>
<td>10%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>11+</td>
<td>6%</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>

#### Merchandise export value, share of total

<table>
<thead>
<tr>
<th>Number of export products</th>
<th>1-5</th>
<th>6-10</th>
<th>11+</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>13%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>6-10</td>
<td>8%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>11+</td>
<td>17%</td>
<td>11%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: EDC Economics, average annual data 2010-15.

...but most export value is from those exporting many products.
BENEFITS OF ADDING NEW EXPORT MARKET OR PRODUCT

Source: EDC Economics, regression results controlling for year, industry and employment.
• Fragile state of global trade.

• Global growth shifting to emerging markets. Canadian trade lags OECD, but is shifting from:
  • goods to services
  • trade to investment
  • advanced to emerging markets.

• Diversification push: benefits, new FTA opportunities, but scale/scope challenges.
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- Global Economic Outlook
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- Country Risk Quarterly
- Trade Confidence Index
- Commodity and Global Market Trackers
- Research reports
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edc.trade/economic-insights
Redesigning Canadian Trade Policies for New Global Realities

Edited by Stephen Tapp, Ari Van Assche and Robert Wolfe

https://irpp.org/research/trade/
TAKE ON

THE WORLD

EDC