Overview of the Trade Landscape

Queen’s Institute on Trade Policy

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Outline

The pandemic economy and global trade

Canada’s trade performance

Prospects to grow & diversify Canada’s trade
Unparalleled economic disruption

Net job loss in Canadian recessions
Thousands

<table>
<thead>
<tr>
<th>Recessions</th>
<th>1980s</th>
<th>1990s</th>
<th>Great Recession</th>
<th>COVID</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-612</td>
<td>-404</td>
<td>-325</td>
<td>-2,989</td>
</tr>
</tbody>
</table>

7x bigger than average

Source: Canadian Chamber calculations
Huge policy response in advanced economies

Fiscal policy response
% of GDP

- **Advanced economies**
  - Direct support: 17
  - Equity, loans, guarantees: 11.4

- **Emerging markets**
  - Direct support: 4
  - Equity, loans, guarantees: 2.6

- **Low income countries**
  - Direct support: 2
  - Equity, loans, guarantees: 0.2

Gov’t transfers raised personal income

Monthly change in U.S. personal income components
Trillions, USD

Jan-20 Jul-20 Jan-21 Jul-21

Wages Gov’t transfers Personal income

Personal savings rate

Excess savings $3.2 Trillion → ~3 months of pre-COVID consumer spending

Sources: Canadian Chamber of Commerce; Bureau of Economic Analysis.
Canadian jobs back to pre-pandemic level, but big shifts across industries

Total employment
Millions of jobs

Employment by industry
Change since Feb 2020

Sources: Canadian Chamber of Commerce; Statistics Canada
Global trade during COVID

Canada’s trade performance

Prospects to grow & diversify Canada’s trade
Dire initial predictions

“2020 will show a trade collapse far larger than 2008-09, since COVID is a demand and supply shock, while the great trade collapse was mostly a demand shock.”

Richard Baldwin, April 7, 2020
Goods trade greatly exceeded expectations

Global merchandise trade volumes
Index 2010=100

<table>
<thead>
<tr>
<th>Forecast</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spring 2020</td>
<td>-13% to -32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fall 2021</td>
<td>-5%</td>
<td>11%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: CPB Netherlands; WTO forecasts; Canadian Chamber calculations.
Led by Asian goods exports

Goods exports by region
Index 2019=100

<table>
<thead>
<tr>
<th>Region</th>
<th>Export growth 2019-2021, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>14.7</td>
</tr>
<tr>
<td>South America</td>
<td>2.2</td>
</tr>
<tr>
<td>Europe</td>
<td>1.0</td>
</tr>
<tr>
<td>North America</td>
<td>-0.6</td>
</tr>
<tr>
<td>Africa</td>
<td>-2.4</td>
</tr>
<tr>
<td>Middle East</td>
<td>-7.2</td>
</tr>
</tbody>
</table>

Source: WTO
Services trade hit harder, especially travel

Global services trade volumes
Year-over-year % change

Source: WTO
Unequal progress exacerbates systemic fragility

Share of population fully vaccinated against COVID
As of Nov 11, 2021

Source: Our World in Data.

Local factory closure; Global impacts

Nike could lose production of 160 million pairs of shoes due to COVID-related facility closures in Vietnam,
Global supply chain pressures now worse-than-expected

Purchasing Managers Indices, Orders rising

Inventories falling

Sources: Canadian Chamber of Commerce; OECD.
Shipping costs explode

Price indices, Jan 2019 = 100

Sources: Canadian Chamber of Commerce; OECD.
Record-high backlogs

U.S. Backlog of orders

Los Angeles port backed up

Vessels at Anchor and average days at anchor & berth

Sources: Canadian Chamber of Commerce; Macrobond.
The pandemic economy and global trade

Canada’s trade performance

Prospects to grow & diversify Canada’s trade
Canada’s trade has been pretty strong

**Merchandise exports**
% change since Jan 2020

**Services exports**
% change since Jan 2020

Source: Haver analytics
Uneven sectoral impacts

**Canadian merchandise exports, key sectors**

% change since Jan 2020

<table>
<thead>
<tr>
<th>Jan</th>
<th>Apr</th>
<th>Jul</th>
<th>Oct</th>
<th>Jan</th>
<th>Apr</th>
<th>Jul</th>
</tr>
</thead>
<tbody>
<tr>
<td>-60</td>
<td>-50</td>
<td>-40</td>
<td>-30</td>
<td>-20</td>
<td>-10</td>
<td>0</td>
</tr>
</tbody>
</table>

**Canadian services exports, by component**

% change since Jan 2020

<table>
<thead>
<tr>
<th>Jan</th>
<th>Apr</th>
<th>Jul</th>
<th>Oct</th>
<th>Jan</th>
<th>Apr</th>
<th>Jul</th>
</tr>
</thead>
<tbody>
<tr>
<td>-100</td>
<td>-80</td>
<td>-60</td>
<td>-40</td>
<td>-20</td>
<td>0</td>
<td>20</td>
</tr>
</tbody>
</table>

Sources: Canadian Chamber, Statistics Canada
Surveying the damage
Online capabilities mitigated sales losses

Report export sales declines of 50% or more
% of respondents

High online capabilities

Low online capabilities

33%

58%

Note: “High online capabilities” can do over 50% of sales online; “low” can do <50% of sales online.
# Growing supply chain challenges in Canada

**Supply chain obstacles* expected over the next three months**

<table>
<thead>
<tr>
<th>Industry</th>
<th>2021Q2</th>
<th>2021Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>33.0</td>
<td>36.9</td>
</tr>
<tr>
<td>Wholesale</td>
<td>31.2</td>
<td>35.9</td>
</tr>
<tr>
<td>Retail</td>
<td>27.8</td>
<td>31.9</td>
</tr>
<tr>
<td>Construction</td>
<td>29.9</td>
<td>30.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>22.5</td>
<td>24.8</td>
</tr>
<tr>
<td>All industries</td>
<td>17.5</td>
<td>19.1</td>
</tr>
</tbody>
</table>

*Difficulty acquiring inputs (domestically or internationally); maintaining inventory; and transportation costs.

Sources: Statistics Canada, Canadian Survey on Business Conditions; Canadian Chamber of Commerce.
Firms adjusting supply chains

Are you adjusting the countries or suppliers from which you source your inputs?
% of respondents

<table>
<thead>
<tr>
<th>Considering changes</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actively considering other domestic input suppliers</td>
</tr>
<tr>
<td>Apr 2020</td>
<td>Oct 2020</td>
</tr>
<tr>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>9%</td>
<td>14%</td>
</tr>
<tr>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>9%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Note: Multiple responses permitted.
The pandemic economy and global trade

Canada’s trade performance

Opportunities to grow Canada’s trade
How many potential exporters in Canada?

Motivations: Better economic performance; more inclusive trade

Past approaches: Firm surveys. But how reliable?

Our approach: Use big data to infer potential exporters based on observables

Source: Tapp and Yan (2021)
Universe of firms operating in Canada
Findings

Good news: Lots of potential exporters in Canada 18,000–55,000 → Considerable potential to grow exports (+20-75%)

Potential exporters: small-scale; Canadian-owned; importers; employ immigrants; higher capital; lower debt; no outward FDI
The pandemic economy and global trade

Canada’s relative performance

Markets of future opportunities for Canadian companies
Emerging markets growing faster

Real GDP average annual growth, by decade

Sources: EDC Economics; Oxford Economics

* denotes forecast

Around 2040, emerging market GDP is expected to overtake developed markets
Where are the key markets for Canada?

Typical approach: Observe stronger in emerging markets. Advice → Go for growth!

Our approach: Gravity model to incorporate other factors that influence trade.

Source: Aier (2021)
Gravity model

Factors impacting trade

- Size of the importing economy
- Trade agreements
- Cultural proximity
- Geographic distance
- Geopolitical risk

Factors in the model that help trade hinder trade

- Common language
- Common colonizer
- Common legal system
- Common religion

Potentially-relevant factors not captured in the model

- Immigration and diaspora linkages
- Host country ease of doing business
- Canadian expertise and production capacity
- Canadian competitiveness versus other producers
Room to grow now: Canada’s current export potential

Each year Canada leaves $39 billion on the table by not realizing its full export potential.
Key markets in 2030: Risks and rewards
Changing rankings: Canada’s top trading partners

* $USD, Green indicates countries that moved up the rankings; red indicates countries that moved down.
Conclusions

• Huge pandemic shock and policy response. Incomplete unequal recovery underway, 🇨🇦 doing pretty well.

• Global trade outperformed in 2020, but big supply chain challenges in 2021 into 2022.

• Scope to grow Canadian trade, diversification likely an evolution following global trends, not revolution.
Recommended resources

Podcasts

• **Trade Talks**
• **Trade Guys**

Lots of free reports here
https://irpp.org/research/trade/
Additional material
Markets of the future: Canada’s top trading partners

Annual Canadian exports opportunity (goods and services), 2030 (USD billions)

**North America**
- U.S. ($578B)
- Mexico ($88B)

**Europe**
- U.K. ($25B)
- Germany ($9B)
- France ($7B)

**East Asia**
- China ($67B)

**Hidden gems: South America**
- Brazil ($3B)
- Chile ($2B)
- Colombia ($1B)
- Peru ($1B)
- Argentina ($0.4B)

**Hidden gems: Africa**
- Egypt ($1B)
- South Africa ($1B)
- Nigeria ($0.7B)
- Morocco ($0.6B)
- Algeria ($0.5B)

**South Asia**
- India ($13B)

**Hidden gems: Asia**
- South Korea ($10B)
- Indonesia ($5B)
- Singapore ($4B)
- Vietnam ($3B)
- Philippines ($3B)

**Oceania**
- Australia ($7B)
Canada’s trade has also fallen behind other advanced economies over the past two decades.

Export volumes
Goods and services, % of global total

Source: EDC Economics
More volatile, slower-growing trade with the U.S. including in the pandemic (e.g. autos, energy)

Canada’s merchandise exports
Billions of Canadian dollars

Source: Haver Analytics, Statistics Canada
Canada-OECD gap in goods, not service exports

Cumulative percent growth

Goods

Services

Non-OECD
World
OECD
Canada

Non-OECD
World
OECD
Canada
Small exporter counts hit harder

Number of Canadian goods exporters, by firm size
% change since Feb 2020

Mar | Apr | May | Jun | Jul | Aug
---|-----|-----|-----|-----|-----
Red | Red | Red | Red | Red | Red

- Small (< 49 employees)
- Medium (50 - 499 employees)
- Large (> 500 employees)

Source: Statistics Canada
Delta variant keeps threat level elevated

Global confirmed new COVID-19 cases
Daily change, millions, weekly average

Sources: Johns Hopkins Coronavirus Resource Center, Oxford University.