22. Establish a New Proactive Trade Policy in Canada

Issue

Since 2009, the long-standing Canadian trade balance shifted to deficit as imports value increased more than exports. The United States is by far Canada's largest trading partner, accounting for about 75% of exports and 66% of imports as of 2015 (Trading Canada). Canada is also experiencing high levels of trade deficits with China and Mexico. In order to restore trade balance, Canada needs a new proactive international trade policy that works for businesses.

Background

Canada has experienced a 15-year slump in exports, among the worst track records within developed economies (Financial Post December 5, 2016). According to Statistics Canada, Canada's trade record on current accounts basis is negative $30 Billion. The year 2016 was among the worst performing years for the country's trade balance.

Canada is one of the most trade-dependent nations in the world. Even so, trade as the percentage of GDP has fallen from a record 84% in 2000 to about 66% in 2016. The country's export growth rate is averaging just below 1% in volume terms since 2000, the worst in the Group of 20 and second-worst among developed economies. During the same period, Canadian exports as a share of GDP fell by 14 % to about 31%.

A particular source of the overall trade imbalance is the trade relationship with China and Mexico. While the bilateral trade flow was balanced until the mid-1990s, with a modest flow going in each direction, Canada developed a large and chronic trade deficit with China, quintupling between 1999 and 2008, reaching over $30 Billion. The deficit then paused during the financial crisis of 2008, but since 2013 the deficit has surged again. From 2012 to 2015 Canada's exports to China grew only by less than $1 billion per year, but imports from China grew by $15 billion. Canada's merchandise trade deficit with China reached $45 billion by 2015, and it continued to grow throughout 2016. (Jim Stanford, rabble.ca, September 2, 2016). For every dollar worth of exports to China, Canada imports about $3.25. Also worrying for Canada is the nature of our trade with China. While China's trade with Canada is overwhelmingly in manufactured goods, Canadian manufactured goods and commodities only roughly constitute half of our exports to China.

Canada is also experiencing a significant trade deficit with Mexico. The 2015 merchandise trade deficit was measured at $24 billion. According to Statistics Canada, the overall trade deficit with Mexico over the past 5 years amounts to almost $55 billion.

According to available data, Canada is struggling to improve its international trade balance and its 15-year exporting slump. While the largest trade imbalances are with China and Mexico, Canada's overall international trade performance, including the two-way trade with the U.S., is a threat to long-term economic stability. Canada's trade with the U.S. was more than eight times our trade with the European Union, more than 12 times our trade with China, and more than 36 times our trade with Japan

With the election of Donald Trump as U.S. president, Canada's trade with the world's largest market may be at risk. The business community has reasonable fears that electoral positions of the Trump administration will potentially kick start a global chain reaction of protectionism, the reversal of advantageous aspects of our trade agreements and Canada's ability to compete in foreign markets.

Our business community must be aided by more proactive trading strategy at both the federal level. Policy development must prioritize boosting the ability of our businesses to export, compete within global trade regulations and as a principle they must enjoy equal privileges afforded to imported goods. Canada must take active steps to address the growing bilateral imbalance with China, Mexico and other countries that have been sustained over a number of years and it must attach conditions favourable to Canada on both trade and Foreign Direct Investments.

The business community is looking for immediate actions that will take a closer look at our industrial strategy, our international trade standing and that would produce a detailed plan for addressing any deficiencies that have been identified as critical in improving our trade performance. Concurrently, the governments must also facilitate the current and future participation of Canadian goods within global supply chains. For example, within the NAFTA agreement, sectors including auto and resource based manufacturing rely on efficient transportation of goods within North America.

Canada can only prosper if we embrace and improve our international trade competitiveness and this must be an urgent priority for the Canadian government.

Recommendations

That the federal government:

1. In the model of the Trade Estimates Report by the U.S., conduct an annual inventory of the most important foreign barriers affecting Canadian exports of goods and services, foreign direct investment by residents, and protection of intellectual property rights. Such an inventory will improve awareness and transparency of these trade barriers and allow the business community to collaborate towards improving competitiveness.