TURNING IT AROUND:
HOW TO RESTORE CANADA’S TRADE SUCCESS

May 2014
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INTRODUCTION

The global economy and the rise of new markets hold a lot of potential for Canadian business, especially as domestic growth prospects remain limited. But companies face significant barriers to internationalization, both at home and abroad. To address these barriers, Canada needs to take measures to improve its productivity and transportation infrastructure and open new markets with free trade agreements.

Yet there is a growing consensus that these measures are not enough. In early 2013, the Canadian Chamber of Commerce identified “deficient strategies for trade success in new markets” as one of Canada’s Top 10 Barriers to Competitiveness. Commending Canada’s ambitious trade negotiation objectives, it pointed to the need to strengthen parallel policies to help Canadian companies overcome hurdles as they seek to sell their goods and services abroad and take advantage of global supply chains. Later that year, the Minister of International Trade revealed the Global Markets Action Plan, which announced a “new trade promotion plan” that promises to strengthen economic diplomacy and ensure Canadian companies have the tools and support they need to succeed abroad.

This paper examines Canada’s lagging trade performance and the case for strengthening trade promotion and economic diplomacy. Based on consultations with member companies and other stakeholders, it reviews what Canada is already doing in this area and provides a menu of recommendations for improvement under the following themes:

- Integrating the service offering and connecting it to businesses
- Unifying and projecting Canada’s business brand
- Strengthening the frontlines
- Incorporating the private sector into Canada’s international development strategies

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Canada’s Lagging Trade Performance

International trade is one of the fastest and most effective ways for Canadian businesses to grow, create jobs and contribute to the economy. However, the increase in exports and outward investment has been slow in recent years, and diversification to emerging economies has been limited.

Faced with a small domestic market, Canadian companies looking to expand have no choice but to go global. By exporting their goods and services, they can exploit economies of scale and achieve higher growth rates (see Box 1). Sourcing from global suppliers and investing in foreign operations allows companies to take advantage of unique local technologies, skill sets and cost advantages. And the capacity to innovate and access finance depends increasingly on a company’s international ties.

Given the multi-faceted relationship between Canadian business and global markets, Canadian policy-makers now refer to the importance of ‘integrative trade’ performance—which, in addition to exports, considers direct investment abroad, use of imported inputs in exports and the establishment of foreign affiliates.3

Despite more firms looking abroad, Canada is lagging its peers according to several measures. Over the past decade, the value of exports has increased at only a modest pace (see Figure 1). This is despite significant price premiums received by Canadian producers of energy, mineral and agricultural commodities. If these price increases are excluded, the volume of merchandise exports shipped in 2012 was actually five per cent lower than in 2000 despite a 57 per cent increase in trade worldwide.4 Growth in services exports has also been lacklustre despite the rising significance of this sector to Canada’s economy.

Box 1: Canadian companies look abroad for growth

“The number of small businesses exporting to emerging markets is growing by 8.5% annually. At this rate, the number of businesses selling their products and services abroad will double every eight years. In many cases, these firms’ revenue growth is much greater than that. Given the fast pace of Canadian export growth to emerging markets, many exporting firms are seeing explosive growth in total revenues.”

- Peter Hall, Chief Economist, Export Development Canada
Canada’s foreign investment trends tell a similar story (see Figure 2). Export Development Canada has recorded significant growth in sales by Canadian foreign affiliates—exceeding the value of Canadian exports for the first time in 2010—but evidence suggests that sales levels are relatively higher for affiliates from the U.S., the U.K., Japan and Australia.5

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5 Moeller, 2012, p. 11
Diversification to emerging and frontier markets is stalling. While the share of exports sold outside the United States grew until 2009—primarily due to China—it has been stuck at around 25 per cent since then.\(^6\) Aside from China, developing countries buy a smaller portion of Canada’s exports than they did four years ago. The stock of foreign investment abroad also shows a lack of diversification (see Figure 3). Although Canada is Latin America’s third largest investor behind the U.S. and Spain, investments in Asia and Africa together make up only one-and-a-half per cent of total overseas assets held by Canadian companies.

The reality is that only a small portion of Canadian businesses are globally active, and an even smaller portion of those are in high-growth markets. This applies to both small and large companies. The Ontario Chamber of Commerce recently noted that just six per cent of small businesses currently export.\(^7\) And of the top 100 global companies by value of foreign assets, only one—Barrick Gold—is Canadian.\(^8\)

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Barriers to Internationalization

Companies face many barriers to internationalization. Low productivity growth, a high cost base and labour and skill shortages have sapped export competitiveness in some cases. Other important factors for companies doing business across borders include the quality of transportation and communication infrastructure, access to imports and the ease of customs administration. Compliance with export restrictions can also be a problem for some industries.

Much has been said about the high value of the Canadian dollar in recent years, and it has certainly had a negative effect on certain industries. But some industries that were expected to be vulnerable to the high dollar, such as electrical equipment and machinery, actually saw significant export growth. Moreover, a strong currency makes it easier for companies to invest abroad and makes capital equipment and other imported inputs cheaper. This should help companies internationalize.

Without ignoring the challenges at home, some of the most significant hurdles lie in foreign jurisdictions. Protectionist tariffs and quotas, discriminatory or diverging regulations and product standards, subsidies, ownership restrictions, local content requirements, and poor protection of physical and intellectual property all make it difficult for Canadian businesses to compete abroad. Service providers often face entry restrictions and tax disadvantages or find that their credentials and expertise are not recognized.

The Canadian government’s ambitious agenda of free trade and investment protection agreements is successfully targeting many of these barriers. Agreements with the European Union and South Korea were recently announced. Negotiations with other key markets including Japan, India and the 12 members of the Trans-Pacific Partnership hold promise. Should these come to fruition, Canada would gain access to over 80 per cent of the global economy.

But trade agreements do not cover all policy and regulatory barriers. And even when barriers are addressed in an agreement, enforcement through dispute settlement is a long and arduous process and may not be a valid option for companies operating on short timelines. Moreover, the additional operational challenges of doing business in foreign jurisdictions are daunting. Companies must build relationships with new customers and suppliers, access capital, navigate red tape and manage their risks—all in a new political, cultural and legal landscape. Business success also depends on the broader diplomatic relationship between countries, especially in markets where the state continues to play an important role in the economy.

These challenges are more acute in emerging and frontier markets where market institutions are less developed and information problems tend to be more severe. As these economies occupy a larger share of the global economy, Canadian companies can be expected to run into challenges more often (see Table 1).

### Table 1: Growth rate and business climates of G7 vs. emerging markets

<table>
<thead>
<tr>
<th></th>
<th>G7</th>
<th>7 biggest emerging markets**</th>
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<tbody>
<tr>
<td>Average annual growth rate* (2003-2012)</td>
<td>1.16%</td>
<td>5.69%</td>
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<tr>
<td>Average ease of doing business ranking (2013)</td>
<td>26</td>
<td>97</td>
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</table>

Source: World Bank

* Simple average

** Includes China, Brazil, Russia, India, Mexico, Indonesia and Turkey.

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THE ROLE OF TRADE PROMOTION AND ECONOMIC DIPLOMACY

Because trade agreements cover only a portion of the barriers faced by companies in foreign markets, governments around the world are increasingly resorting to other policy tools to help their companies abroad. Under the mantra of ‘business diplomacy’ and ‘economic statecraft,’ the U.K. and the U.S., for instance, shook up their foreign service several years ago to develop a stronger focus on commercial objectives. In 2010, President Obama launched the National Export Initiative, a whole-of-government plan to double exports in five years, which, in addition to priority trade agreements, has a heavy emphasis on in-market advocacy, business development services and export financing. Emerging markets have also embraced these tools. As China’s companies emerge on the world stage, they are receiving significant political and financial support from Beijing.

Composed of activities that lie outside the realm of trade policy — which typically refers to the negotiation of trade agreements — trade promotion and economic diplomacy are an increasingly important part of states’ international economic strategies. These activities may include workshops on doing business in certain countries, the provision of market information or vetted local contacts, financing or insurance for exports and outward investment, logistical support for and leadership of trade delegations, technical assistance to improve the regulatory environment, advocacy to host governments, and promotion of the country brand. Table 2 matches some of these support mechanisms with the types of barriers they address. In most countries, a wide range of government actors are involved in these activities, spanning diplomats, officials from departments with a commercial mandate, as well as senior political leaders.

Table 2: Select policy levers to address barriers in foreign markets

<table>
<thead>
<tr>
<th>Policy levers</th>
<th>Lack of market information</th>
<th>Lack of local relationships</th>
<th>Lack of credibility and brand awareness</th>
<th>Cultural differences</th>
<th>Policy and regulatory barriers</th>
<th>Risks to firm assets</th>
<th>Shortage of financing</th>
<th>Exchange rate volatility</th>
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<td>Free trade and investment protection agreements</td>
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<td>Workshops and training on doing business abroad</td>
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<td>Provision of industry/country guides</td>
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<td>Introductions to vetted contacts and local service providers</td>
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<td>Financing for exports and foreign investment</td>
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<td>Support for trade delegations and trade fairs</td>
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<tr>
<td>Technical assistance and advocacy with host government</td>
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<tr>
<td>Promotion of country brand</td>
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There is strong theoretical and empirical evidence linking trade promotion and economic diplomacy to improved trade performance. This is because these policy tools help overcome pervasive market failures affecting cross-border business (see Box 2) and because trade often relies on strong government-to-government relations.

**Box 2: The economic rationale for trade promotion and economic diplomacy**

Despite clear benefits from a business perspective, trade and investment promotion policies can only be justified in economic terms if they address clear market failures in a cost-effective way. In other words, it must be shown that firms are exporting or investing abroad at a lower level than needed to maximize economic welfare and that the costs to taxpayers of bringing them closer to the optimal level are not larger than the expected benefits.

There are several market failures that suggest a role for government. For instance, to do business abroad, companies and their financiers need information on market conditions, local customers and suppliers, export/import procedures, regulations and taxes, and country risk factors, among other things. Relationships are a particularly effective way to overcome these information gaps. However, information and relationships are costly for a company to develop on their own. At the same time, they are much less costly to distribute or share with subsequent exporters or investors. Because the benefits to the broader business community may exceed those to the individual firm that incurred the cost, companies will typically under-invest in information and relationship development. Similarly, firms that train employees in international business skills may not recover the full value of their investments due to staff turnover.

Another market failure relates to country brands and reputation. While an attractive national brand will help companies enter new markets, firms have limited capacity or incentive to promote that brand individually and do not fully absorb the costs of actions that undermine it.

Studies on the impact of trade promotion repeatedly find that it is a cost-effective way to increase firm internationalization. In the Canadian context, for instance, companies using federal trade promotion services export 18% more than comparable firms. They also export to 36% more markets. Assuming a proportional relationship between the trade promotion budget and incremental exports, every dollar spent stimulates $27 of exports.

Yet assistance should not be provided indiscriminately. New research by the Conference Board of Canada shows that company size is a key consideration. Small firms without a demonstrated product, for instance, may be ill-suited to venture into emerging markets and should not be pushed to do so. Those that have the wherewithal and ability to compete tend to benefit most from programs that aim to fill information gaps. Access to traditional forms of trade finance is also important for them.

Larger firms, on the other hand, may place more value on political advocacy and financing for major investment projects. The nature of the host country is an important factor. Trade promotion and economic diplomacy tend to be most effective in lower income countries and those with high levels of state intervention—traits that characterize many of the world’s fastest growing economies.

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Trade Promotion and Economic Diplomacy in Canada

Trade promotion and economic diplomacy have been an integral part of Canada’s international engagement since 1895 when the first trade commissioner left for Australia with a list of Canadian suppliers. Since then, the scale of these activities has grown immensely, creating what can be considered an ‘ecosystem’ of actors and activities covering the federal, provincial and territorial governments, municipalities and industry associations.

The Department of Foreign Affairs, Trade and Development (DFATD) is Canada’s primary institution for trade promotion and economic diplomacy, but the scope of activities extends to a number of other federal departments and agencies. Table 3 provides a snapshot of the federal actors involved and their core activities.

### Table 3: Federal trade promotion services

<table>
<thead>
<tr>
<th>Department of Foreign Affairs, Trade and Development</th>
<th>Trade Commissioner Service: Helps individual clients prepare for international markets, assess market potential, acquire qualified contacts and problem-solve; supports trade delegations, industry associations and other government agencies; provides limited grants to support researchers, municipalities and associations.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ambassadors: Build relationships with government officials and advocate to host governments on behalf of Canadian commercial interests.</td>
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<tr>
<td></td>
<td>Export Development Canada: Offers mix of debt, equity, insurance and guarantee products to finance exports and overseas investments; provides credit to foreign companies based on anticipated demand for Canadian products.</td>
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<td></td>
<td>Canadian Commercial Corporation: Arranges procurement opportunities and contracts for Canadian companies to supply foreign governments in the defense, infrastructure and government services markets.</td>
</tr>
<tr>
<td></td>
<td>Canadian International Development Agency (former): Can provide grants and contributions for business climate improvements in developing countries and for companies to supply and participate in development projects.</td>
</tr>
<tr>
<td>Agriculture and Agri-food Canada</td>
<td>Provides business development services for Canadian agriculture and agri-food exporters through its trade commissioner network as well as direct financial assistance to farmers, companies, provinces, territories and associations for branding (e.g. Canada Beef), market development and regulatory compliance purposes.</td>
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Natural Resources Canada provides matching funds for industry associations such as Canada Wood, which maintains a network of overseas offices and staff focused on brand promotion and the development of codes and standards favourable to Canadian products.

Industry Canada: "Business Development Canada: Provides debt and equity solutions for small businesses through its branches across Canada, including the Market Xpansion Loan, which can be used to finance participation in trade shows and other export plans. "

Canada Business Network: Window for companies to access government programs and services from Industry Canada and other federal, provincial and territorial departments, including those related to international business development.

Federal regional development agencies collaborate with provinces and territories to develop regional trade promotion programs. Atlantic Canada Opportunities Agency, for instance, provides market research, leads business delegations and offers matching funds for companies to prepare for international markets and take part in trade fairs abroad.

Canada’s regions and municipalities contribute to the ecosystem too. Larger provinces, such as British Columbia, Ontario, Quebec and Alberta, have set up their own trade and investment promotion offices in high-potential markets like India and China. Cities are more frequently undertaking trade missions to attract foreign investment. Domestically, these governments manage a wide-range of programs to enhance the export capabilities of their businesses through grants and advisory services. Initiatives are often backed by funding from federal regional development agencies.

Many national, sectoral and bilateral business associations and local chambers of commerce offer trade promotion services to their members. This may involve providing market information, sharing best practices and sending delegations to trade shows. Some, such as the Canada-China Business Council, have established businesses incubators in-market. However, their capacity to deliver a full range of services tends to be quite limited due to budget and human resource constraints. Federal, provincial and territorial governments are increasingly partnering with these organizations to deliver programming.

The Prime Minister and the Canadian premiers, along with the members of their cabinets, play an important personal role in the eco-system. They lead business delegations, promote Canada’s brand and advocate on behalf of Canadian companies abroad. The frequency of high-level delegations at the federal, provincial and territorial levels has been growing. Even the Governor General has become involved, taking part in the announcement of Bombardier’s sale of C-series jets to a Chinese leasing company last year.

Governments and the business community clearly recognize the value of trade promotion and economic diplomacy. But there is always room to improve. Consultations with members of the Canadian Chamber of Commerce and other stakeholders revealed several areas where enhanced coordination, resourcing or support mechanisms would have a positive impact. The ongoing implementation of the Global Markets Action Plan and the restructuring of DFATD provide substantial scope to address these issues. In most cases, it is not about changing what Canada does, but finding ways to do it better.
PRIORITY 1: INTEGRATE THE SERVICE OFFERING AND CONNECT IT TO BUSINESS

To ensure the effectiveness and efficiency of programs and services, government agencies should be working together closely to avoid overlap and maximize strategic synergies. Businesses need to know what support is available and most relevant to them, and they need to be able to access it quickly and cheaply. This will help increase utilization rates and make businesses more confident to expand into new markets.

The sheer scale of actors involved in trade promotion and economic diplomacy in Canada raises concerns. To be sure, diversity and mild competition allows for more innovation, flexibility and customized solutions to accommodate unique regional or sectoral needs. But with these benefits come the risk of fragmentation. In many cases, fixed costs associated with program management and administration are not being shared across agencies, resulting in wasted resources. Information on domestic clients and international leads tends to be siloed, and relationships are managed independently. Service agents may often be unaware of what other programs and services are available for their clients. This makes it difficult to facilitate referrals across agencies and limits opportunities for collaboration based on complementary capabilities (see Table 4).

Table 4: Core capabilities of main federal agencies

<table>
<thead>
<tr>
<th>Organization</th>
<th>Core capabilities</th>
</tr>
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<tbody>
<tr>
<td>Trade Commissioner Service</td>
<td>• Political relationships and problem-solving</td>
</tr>
<tr>
<td></td>
<td>• On-the-ground presence</td>
</tr>
<tr>
<td></td>
<td>• Market intelligence</td>
</tr>
<tr>
<td>Export Development Canada</td>
<td>• Financing trade and investment</td>
</tr>
<tr>
<td></td>
<td>• Access to key decision-makers within global businesses</td>
</tr>
<tr>
<td>Canadian Commercial Corporation</td>
<td>• Infrastructure, defense sector expertise</td>
</tr>
<tr>
<td></td>
<td>• Government procurement</td>
</tr>
<tr>
<td>Industry Canada*</td>
<td>• Relationships with small business</td>
</tr>
<tr>
<td></td>
<td>• Science and technology expertise</td>
</tr>
<tr>
<td>Natural Resources Canada</td>
<td>• Oil and gas, nuclear, minerals, clean technology, forestry sector expertise</td>
</tr>
<tr>
<td></td>
<td>• Regulatory expertise</td>
</tr>
<tr>
<td>Agriculture Canada</td>
<td>• Agriculture and agri-food sector expertise</td>
</tr>
<tr>
<td></td>
<td>• Regulatory expertise</td>
</tr>
</tbody>
</table>

Note: Illustrative list only
*e.g. Business Development Canada, Canada Business Network
Many businesses remain unaware of the support services available to them and those that are aware often do not use them. Recent estimates suggest that there are more than 40,000 active exporters in Canada, and many other companies are otherwise engaged in international business or are considering their options.\(^\text{16}\) This number is well beyond the 20,000 organizations in the Trade Commissioner Service’s database and the 7,000 or so companies serviced by Export Development Canada annually.\(^\text{17}\) To be sure, some firms may rely solely on services from other federal, provincial, territorial or private sector agencies. Others may be comfortable to go at it alone. But there is certainly room to narrow the gap.

Part of the problem is that domestic outreach efforts are limited and uneven. Whereas Export Development Canada has significant resources for domestic marketing campaigns, the Trade Commissioner Service and other agencies often have to take a more passive approach based on fielding inquiries. Recent reductions in the Trade Commissioner Service’s domestic footprint may exacerbate the problem.

Smaller firms find it particularly difficult to navigate the trade promotion ecosystem. Often, they have to visit multiple websites and speak with several representatives in different departments before finding the relevant solution to their problem. This can be enough to deter them from seeking services in the future. While most agencies have websites with information on how to access their services, past attempts to create a streamlined online portal that would guide users through the universe of government services have been largely unsuccessful. One initiative with that potential—the Virtual Trade Commissioner Service—is now closed.

Despite the general lack of service integration, there are some bright spots. One is the International Business Development Agreement between the federal government and the Atlantic provinces. For two decades, the agreement has pooled resources and provided a forum for the coordination of trade promotion activities between the provincial and territorial governments and the Atlantic Canada Opportunities Agency, DFATD and Industry Canada. In 2011, Export Development Canada and Business Development Canada signed an MOU to improve their collaboration. The following year, nearly 150 companies were referred in either direction.\(^\text{18}\) Through its sector strategies, DFATD is using advisory groups made up of companies and officials from other agencies and departments and trade commissioners placed in sector associations to gather intelligence on Canadian capabilities and guide their in-market programming. These mechanisms are being expanded and strengthened under the Global Markets Action Plan.

**Recommendation 1.1: Create joint operational and outreach teams at the national level for projects in priority sectors/markets**

To complement DFATD’s sector and country strategies, multi-departmental task forces should be assembled to put together service packages for a specific pipeline of projects. Take infrastructure in India, for instance. This might include the Canadian Commercial Corporation as business development lead, Export Development Canada financing and targeted political interventions by trade commissioners, the ambassador and the Minister of International Trade, if necessary. These agencies would work with larger Canadian companies that have the capacity to deliver the project but would use their domestic networks or work with provincial or territorial agencies and Business Development Canada to identify small- and medium-sized companies that are able to take part in the broader supply chain. This approach presents a full solution to foreign customers and ready-made opportunities for Canadian companies.

\(^\text{18}\) Export Development Canada, 2012.
**Recommendation 1.2: Streamline business identifiers and share information on domestic clients and foreign contacts and opportunities**

To facilitate cooperation and make outreach more effective, departments and agencies at the federal, provincial and territorial levels should agree on a common identification number for businesses using their services. Clients should be encouraged to provide additional details related to sector and market interests to further improve targeting. Similarly, agencies should be sharing their international marketing lists and information on foreign projects with each other. They should also open up this information to industry associations and Canadian businesses directly.

Accomplishing this level of information sharing will require careful attention to and respect for confidentiality and privacy issues. One option is to use publically available data as collected by private companies. If government agencies are going to collect and share additional data, there needs to be a clear opt-in process for companies so they are aware of how the information provided will be used and of the advantages of doing so.

**Recommendation 1.3: Provide a single window to access trade promotion services**

Companies should be able to access information on the full range of trade promotion services available through an online window. This could draw on the model of Export.gov, a U.S. government website that aggregates knowledge resources for exporters and information on how to access various trade promotion services across different federal agencies (see Box 3).

**Box 3: Online portals for trade promotion services: Export.gov**

Export.gov is a “central location for export information” managed by the U.S. International Trade Commission in collaboration with 19 other federal agencies that play a role in helping American businesses expand abroad. It provides online training through webinars and tutorials, tools to assess export readiness and information on the different aspects of the export process. A portal allows registered companies to directly access thousands of market research reports as well as pre-qualified trade leads. Export.gov also guides users towards support tools available from partner agencies, such as export and investment financing, small business counseling, in-market advocacy and grants for project feasibility studies.

*Source: Export.gov*

This could build on an existing platform, such as Industry Canada’s Canada Business Network, which operates CanadaBusiness.ca as well as a network of regional business service centres. A key advantage of this platform is its common brand and the fact that businesses—especially small- and medium-sized enterprises that may not yet have considered international expansion—already use it to access a range of other business services. Federal, provincial and territorial departments, agencies and Crown corporations should provide regular updates of their services to this platform.

To make the online platform more effective over the longer-run, a user’s login profile could be linked to their business identifier and other information on their business. Using advanced search technology and big data techniques, it would curate the most relevant information and services based on a company’s previous engagement with government departments and key profile characteristics.
PRIORITY 2: UNIFY AND BUILD CANADA’S BUSINESS BRAND

Notwithstanding the spread of global supply chains, a strong national brand remains a key competitive advantage for businesses entering foreign markets. It makes their products more attractive to consumers, driving sales and price premiums. It also makes businesses more credible and favourable partners for local producers, innovators and governments.

On the surface, perceptions of Canada are highly positive. Last year, the BBC’s annual Country Rating Poll ranked Canada as the second most popular country in the world.¹⁹ For years, the Economist Intelligence Unit has consistently ranked Vancouver, Toronto and Calgary among the top 10 most liveable cities.²⁰ But if you dig deeper, that reputation does not seem to be associated with the qualities many consumers and executives are looking for. According to brand strategy firm FutureBrand, Canada’s overall brand ranks second internationally, but its “made-in” brand – i.e. perceptions of production capabilities – does not make the top 20 (see Table 5). This reflects low scores on uniqueness, differentiation from competitor countries, quality standards and expertise.

### Table 5: General country brand vs. ‘made-in’ brand

<table>
<thead>
<tr>
<th>Country Brand</th>
<th>“Made-in” Brand</th>
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<tbody>
<tr>
<td>1</td>
<td>Swizerland</td>
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<tr>
<td>2</td>
<td>Canada</td>
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<td>3</td>
<td>Japan</td>
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<td>4</td>
<td>Sweden</td>
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<td>5</td>
<td>New Zealand</td>
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<td>Australia</td>
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<td>Maldives</td>
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<td>Austria</td>
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<td>19</td>
<td>Spain</td>
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<td>20</td>
<td>Mauritius</td>
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Source: FutureBrand

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Canada’s weak business brand may reflect a somewhat passive approach to managing its image abroad. Successive federal governments have neglected to promote and shape Canada’s international brand, with some estimating that Canada spends only 10 per cent of what its G8 peers do on public diplomacy.21 Existing brand programs are narrowly targeted at specific sectors or objectives; for example, Invest Canada, Imagine Education in Canada and Canada Wood. The broader Brand Canada program, established in 2001, has been discontinued.

Another tool to promote Canada’s commercial brand is high-level business delegations led by senior politicians. (These are distinct from more narrow business development missions to trade fairs, for instance.) Done right, these delegations can raise Canada’s profile among local elites, especially in markets where the state still plays a major role in the economy. A prime example is the Prime Minister’s official visit to China in 2012, where he was joined by dozens of senior executives from some of Canada’s largest companies. They met with the Chinese leadership and held a well-publicized signing ceremony for a number of commercial contracts. According to Canadian journalist David Akin, China’s national media consistently noted that Canada had brought “a strong delegation.”22 Several Canadian companies reported a noticeable improvement in their relationships with the Chinese government and local business partners after the visit.

However, the impact of these initiatives depends to a large extent on the scale and level of business representation, which has been inconsistent across delegations (see Box 4). Canada’s leading companies are more than willing to pay their own way. The key problem is providing enough notice to CEOs whose schedules are often set more than six months in advance.

Box 4: Missed opportunities during 2012 state visit to India

In stark contrast to the 2012 China visit, only a handful of corporate leaders accompanied the Prime Minister on his trip to India later that year. To be sure, Canada’s trade with India is much lower than with China, and its economy had slowed by that time. However, most of Canada’s top companies have well-developed India strategies and members of their senior management travel there on a regular basis. Given enough notice—some CEOs reported receiving invitations just days from the date—many would surely have coordinated their travel schedules to participate. Although progress was made on a number of economic files, including the Canada-India Nuclear Agreement, Canada did not put its best foot forward. This was not lost on certain Indian business leaders who at the last minute decided to cancel their involvement in formal programs.

<table>
<thead>
<tr>
<th></th>
<th>China 2012</th>
<th>India 2012</th>
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</thead>
<tbody>
<tr>
<td>CEOs</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Total C-level</td>
<td>17</td>
<td>6</td>
</tr>
</tbody>
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Source: Official delegate lists
Note: Companies with over $100 million in annual revenue

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Another challenge is the lack of coordination between provincial and federal delegations. As the provinces offer more trade promotion services and establish offices abroad, it is not uncommon for major foreign markets to receive visits from several different premiers in one year, in addition to official visits by federal cabinet ministers or even the Prime Minister. This can exhaust the local audience and dilute Canada’s message, particularly in markets less familiar with Canada and its federal structure.23

Recommendation 2.1: Create a forward planning committee with the private sector and the provinces and territories to coordinate delegations under the Canadian banner

In cooperation with the sector and country advisory groups established under the Global Markets Action Plan, the committee would include representatives from relevant federal departments, provincial and territorial governments and industry groups as well as select individual businesses. It would meet several times per year to identify priority occasions—including participation at regional and multilateral summits such as APEC—and coordinate the involvement of senior private sector leaders under the Canadian banner. One meeting could be done on the sidelines of the First Ministers meeting, for instance.

Recommendation 2.2: Appoint a special Trade Ambassador dedicated to leading delegations and pursuing specific opportunities

The Prime Minister or Trade Minister should appoint a respected business leader to be responsible for chairing the forward planning committee and leading high-level trade delegations to priority markets. In contrast to visits by the Prime Minister or cabinet ministers, the Trade Ambassador would command attention abroad without being subject to domestic political obligations and security concerns that make coordination with the provinces/territories and the private sector so difficult. To attract the right talent, the salary would need to be competitive with what the private sector offers, but the potential benefits for Canada’s brand and political relationships in key markets should far exceed the costs.

There is a precedent for this approach. In 1999, New Zealand created a Special Trade Envoy with authority to speak on behalf of the government. Appointees to the position have included a former director general of the WTO and, more recently, the chair of the country’s lamb and beef producers association.

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Recommendation 2.3: Monitor, manage and project Canada’s business brand

The government’s announcement in the 2014 budget of a “Made in Canada” brand campaign is a promising development.24 Drawing inspiration from the “Australian-made” campaign, it seeks to develop a label that will promote Canadian products both domestically and internationally. But this will not be sufficient. As Canadian companies continue to leverage international supply chains to improve their competitiveness, many of their products may not contain the level of local value-added needed to qualify for such a label. Moreover, by focusing narrowly on consumer perceptions, it only addresses one aspect of the reputational challenges that Canadian businesses face in new markets.

The Made in Canada campaign should be paired with a broader-based national branding program focused on building perceptions of Canada not only as a source of high-quality products, but as a source of leading expertise and a preferred business partner for innovation. It should regularly measure these perceptions among foreign publics and key business and government decision-makers and make recommendations for actions to be taken by the federal government. The program should include an advisory group made up of Canadian business leaders and a coordination committee involving representatives from Invest Canada and other existing national branding initiatives in order to ensure consistent messaging.

Australia can again serve as a model here. Faced with the same problem as Canada—a generally well-liked country lacking business cache—the government launched the Building Brand Australia Program in 2009, a “whole-of-government” initiative managed by Austrade, the equivalent of Canada’s Trade Commissioner Service. Funding was provided to develop “a knowledge base, assets and strategies” that could be used to improve the country’s reputation and help Australian companies build business relationships abroad. This included the creation of Australia Unlimited, a brand identity tested among 14,000 people in 12 different markets. This brand is now used across government agencies and industry groups and includes a website showcasing the country’s diverse talents and contributions to the world.

Canada’s network of embassies and consulates abroad are the foundation of the trade promotion and economic diplomacy ecosystem. Trade commissioners provide valuable services for Canadian companies. In a 2013 survey of their clients, 83 per cent of respondents said they were satisfied or very satisfied with the services they received — up from 66 per cent in 2009. Of the clients who reported completing a commercial agreement in the prior 18 months, two-thirds of them believed that these services contributed to their success.

Perhaps more importantly, as Canada’s boots-on-the-ground, trade commissioners provide the infrastructure and logistics relied upon by other trade promoters, including industry associations, Crown corporations and other federal, provincial and territorial departments and agencies. They are also responsible for supporting many official government delegations. Given such a systemic role, they need to have the capabilities and resources to get the job done. Otherwise, they will have a reduced ability to develop business leads, build long-term relationships with local stakeholders and provide up-to-date information back to headquarters and businesses across Canada.

Recent developments suggest that resources are increasingly being spread thin. The rise in service requests by business clients and the increasing frequency of government delegations are putting a lot of strain on trade commissioners. Much of this demand has come from emerging markets, where trade commissioner requests grew by 15 per cent over the past year. In China and India, they increased by 37 per cent and 25 per cent, respectively. The target in the Global Markets Action Plan to double the presence of small- and medium-sized businesses in these markets by 2018 will only add to this pressure.

Despite these new demands, funding for the Trade Commissioner Service is roughly at the same level as it was in 2007 and it is not projected to increase over the next two years. The number of full-time staff is also flat. In the short-term, resources are being reallocated from offices in Canada and traditional markets towards China, Brazil and India. Other measures have been taken to enhance efficiencies. Client satisfaction remains strong for now but may decline as growth returns to the United States and Europe and companies look to make in-roads or expand their activities there.

Other countries are dedicating more resources to their main trade promotion agencies. Austrade and U.K. Trade and Investment, for instance, receive significantly more funding relative to the size of their economies (see Figure 4). U.K. Trade and Investment has nearly 1,000 more officers stationed at home and abroad.

**Priority 3: Strengthen the Frontlines**

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Aside from resourcing, another concern relates to the skill sets within the Trade Commissioner Service. Traditional diplomats excel at building relationships with diverse stakeholders and at analyzing local political developments. This remains important, particularly when companies run into policy and regulatory uncertainty or tensions with local communities. But trade commissioners are expected to understand business. There have certainly been improvements in recent years, with the development of a new core training model and a stronger focus on sector expertise and global value chains. However, the recruitment process is still largely same for trade and political affairs staff. And with some exceptions, few trade commissioners have had the opportunity to work within a business. Moreover, the reduction in postings to advanced markets such as the U.S. — where trade commissioners are forced to engage leading global businesses — is eliminating an important training ground.

Recommendation 3.1: Ensure that the Trade Commissioner Service has the resources to maintain its capacity to provide timely, effective service to its private sector and government clients

With high satisfaction rates in recent surveys, the Trade Commissioner Service appears to be meeting the needs of its clients for the time being. However, as utilization rates rise and the federal budget comes back into balance, the government should respond with new financial and human resource commitments. In the meantime, there are other ways to reduce pressure on the Trade Commissioner Service and maintain Canada’s footprint abroad. These might include expanding the Global Opportunities for Associations funding for industry groups looking to strengthen their in-market presence, allowing Export Development Canada to open its own offices abroad (currently, they collocate at Canadian embassies or consulates), or creating formal arrangements with private sector service providers (accounting, law, consulting, etc.). Canada could also consider cost recovery through a fee-for-service model, which is quite common in other countries.

Additional resources for the Trade Commissioner Service should not come at the expense of Canada’s broader diplomatic representation. A 2014 study by the C.D. Howe Institute found that the presence of a foreign embassy had more of an effect on Canadian exports to a given country than the placement of additional consulates or trade offices. This suggests that trade promotion activities are a complement, not a substitute for traditional government-to-government engagement.  

Recommendation 3.2: Expand the skill set of trade commissioners

Entry-level foreign service recruitment practices should clearly distinguish between trade and political affairs streams, with the former focused on competencies such as sales skills, financial acumen and knowledge of supply chain logistics. This can be done by simply adjusting the assessment criteria. For more senior trade commissioners, secondments to the private sector should be expanded. This could be done through increased use of the Interchange Canada program or the creation of a specific program under DFATD. A less costly alternative would be to encourage trade commissioners to take leaves of absence to pursue private sector opportunities, with the option of returning at a higher salary at a later date.

Priority 4: Work with the Private Sector to Achieve Canada’s Aid Objectives

It has become conventional wisdom that business and economic development go hand-in-hand. According the president of the World Bank, “the private sector has an essential role to play if we are to end poverty by 2030. Over the past two decades, poverty reduction has been driven by the creation of millions of new jobs— and 90 per cent of new jobs come from the private sector.” Multilateral, regional and national development agencies are increasingly focusing their efforts on providing technical assistance to improve the business climate in developing countries, directly financing business growth and establishing public-private partnerships to promote the availability of human, technical and material resources.

The Canadian government is similarly looking to strengthen its engagement with businesses at home and abroad to help meet its sustainable growth objectives in developing countries. Currently, the involvement of Canadian companies in development projects is well below potential and is reflected by low investment and trade figures with Africa and Asia. This is despite the fact that Canadian companies have significant expertise and capabilities in key sectors relevant for economic development, including energy, extractives, financial services, agri-food and infrastructure.

There are several reasons for this. An increasing percentage of Canada’s official development assistance (ODA) is simply being directed towards foreign agencies and multilateral organizations— often on a sole-sourced basis. The share of ODA allocated to non-Canadian organizations has steadily climbed in recent years to almost 80 per cent in 2012-2013 (see Figure 5). At the same time, funding secured by the Canadian private sector to manage and deliver development projects has dropped by over half since 2007. Tenders on federal websites have slowed to a trickle. While multilateral and other international organizations doubtlessly do good work, Canada is giving away the opportunities created by its development programs and is missing out on the goodwill, knowledge and relationships that come from having direct programming with partner countries.

30 Kim, Jim Yong. “Building a Movement to End Poverty.” Foreign Policy. June 27, 2013
Of course, Canadian companies and consultants can bid on programming at the multilateral-level. However, these processes are often difficult to navigate, even for some of Canada’s largest companies. A 2011 report produced for DFATD found that Canadian sales to multilateral development bank projects amounted only to one per cent of the total value of contracts awarded.\footnote{Foreign Affairs and International Trade Canada. \textit{Summative Evaluation of the Aid Market Support Network}. Office of the Inspector General. 2011. p.41.} While Canada has secured a larger share of consulting contracts, other sales have been limited. For instance, Canada won, on average, 180 goods and equipment contracts per year, compared to 1,300 by Germany and 600 by France. The Netherlands and Spain also had more success.

Accessing these opportunities is made difficult by budget and staff reductions at the Office of Liaison with International Financial Institutions—a network of trade commissioners in Ottawa, Washington, Manila and Tunis that is responsible for interfacing with multilateral development banks and international humanitarian institutions.\footnote{Ibid. p. 54-55.} More and more, information provided to the network’s private sector partners is out of date and the time it can allocate to assisting Canadian companies is limited. Other countries have a much stronger presence within these institutions and allocate greater resources to supporting their businesses to successfully pursue contracts. As a result, despite Canada being one of the world’s largest financiers...
of these organizations, Canadian companies are capturing a very small share of the resulting opportunities. It is not about tying aid, but ensuring there is a level playing field in which Canadians have a fair shot.

Another major challenge facing Canada’s attempt to connect businesses with development programs is the lack of financing tools to entice local and international companies to take part in projects that would otherwise be considered too risky. Currently, Canada’s development authorities rely on mechanisms for allocating contracts, grants or contributions that are cumbersome to use because of their lengthy approval processes and complex requirements.

For decades, Canada has been one of the only developed countries—and the only one among the G8—to not have a dedicated development finance institution.\(^{33}\) Filling the gap between pure aid and commercial lending by entities like Export Development Canada, these institutions offer financing for private sector projects on favourable terms and may pair it with complementary funding for technical assistance and feasibility studies. These instruments are more flexible and responsive to the way companies and investors do business. Moreover, since the funding they provide is repayable, development finance institutions typically break-even or, in some cases, have a positive impact on the public purse.\(^{34}\)

**Recommendation 4.1: Restore the balance between contributions to multilaterals and Canadian-led programming for development**

Canada needs to make more active use of existing tools to enlist the private sector, including requests and calls for proposals and programs such as Partnerships with Canadians. In some cases, sourcing to foreign agencies will be the most effective and efficient way to achieve a certain development objective, but it should be done on a competitive basis so that Canadian companies, consultants and NGOs are given equal opportunity to compete for the business.

**Recommendation 4.2: Adopt new tools to finance development projects**

The federal government should expand the range of tools at its disposal to stimulate private investment in developing countries. This includes concessional loans, equity and risk guarantees with accompanying grants for technical assistance and feasibility studies.

Canada should consider establishing a formal development finance institution that would work hand-in-hand with developing countries, the private sector, the Trade Commissioner Service and other government agencies to identify opportunities for projects and support their implementation while retaining poverty reduction as the overarching objective. The institution would be capitalized with a share of the ODA budget, which could be leveraged to raise additional funds. To be effective, the organization would have to have strong capabilities in both development policy and private sector finance.

**Recommendation 4.3: Re-energize the Office of Liaison for International Financial Institutions**

Trade commissioner resources dedicated to connecting Canadian companies to opportunities with multilateral development and humanitarian institutions should be restored. These commissioners should be responsible for identifying projects or initiatives aligned with Canadian capabilities, making this information available to Canadian companies in a proactive and timely fashion and assisting and advocating on their behalf. These efforts should extend beyond procurement and encompass the wider range of opportunities to partner with these institutions, including opportunities for co-investment. Efforts should also be made to raise awareness and work collaboratively with trade commissioners operating in host economies where projects are taking place.

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**Conclusion**

Due to a number of barriers in Canada and in foreign markets, Canadian companies are not expanding abroad at the same pace as their peers from other countries. Recent efforts to improve domestic competitiveness and sign new free trade agreements are helping. But these alone cannot address all of the market failures inherent to international trade or substitute for the need to build government-to-government relationships that can open opportunities for Canadian companies. The renewed focus on trade promotion and economic diplomacy in the Global Markets Action Plan is therefore welcome.

While various levels currently undertake a wide range of activities to support the international expansion of Canadian businesses, there is significant room to make these efforts more effective. The federal government should take concrete steps to integrate the current service offering and connect it with the relevant companies, unify and improve Canada’s business brand abroad, ensure the Trade Commissioner Service has the capacity and capabilities to meet its clients’ needs and better engage the private sector in Canada’s international development strategies. These measures would go a long way to help Canadian businesses reach their potential in global markets and generate the jobs and prosperity needed to sustain vibrant communities back in Canada.

**List of Recommendations**

- Create joint operational and outreach teams at the national level for projects in priority sectors/markets
- Streamline business identifiers and share information on domestic clients and foreign contacts and opportunities
- Provide a single window to access trade promotion services
- Create a forward planning committee with the private sector and the provinces and territories to coordinate delegations under the Canadian banner
- Appoint a special Trade Ambassador dedicated to leading delegations and pursuing specific opportunities
- Monitor, manage and project Canada’s business brand
- Ensure that the Trade Commissioner Service has the resources to maintain its capacity to provide timely, effective service to its private sector and government clients
- Expand the skill set of trade commissioners
- Restore the balance between contributions to multilaterals and Canadian-led programming for development
- Adopt new tools to finance development projects
- Re-energize the Office of Liaison for International Financial Institutions

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