

An Inclusive and Transparent Approach to Canada’s Free-Trade Agreement and Foreign Investment Promotion and Protection Agreement Models

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Issue

Evolving trade policy mandates on a global scale increasingly undertake novel, beyond-the-border issues and have allowed Canada to advance Canadian values in the context of trade. In the context of a global trade system that is increasingly dependent on private actors and foreign partnerships, Canada should develop a strategy to engage with bilateral and multilateral trade partners, while empowering local industries and maintaining its domestic goals.

Background

The multilateral trade system has undergone a prolonged and continuous shift towards the achievement of beyond-the-border policy considerations, rather than just market factors (Tapp, Van Assche and Wolfe 2017). COVID-19 has constituted a significant market shock and has forced countries and consumers to re-evaluate trade preferences (Global Affairs Canada [GAC] 2023). The “2023 State of Trade Report” states that the Canadian economy was able to recover well from the decrease in trade activity caused by COVID-19, expanding by 3.2 percent in 2022 and steadily growing despite record-high interest rates introduced in 2023 (ibid.). However, trade growth has not occurred equally for all Canadian businesses. Whereas the value of exports grew by three percent for large enterprises in 2023, small and medium-sized enterprises (SMEs) decreased by 8.6 percent (Statistics Canada 2024). Furthermore,

the World Trade Organization (WTO) predicts that global trade may continue to decrease in the coming years, following persistent decelerated global financial growth, as forecasted by the International Monetary Fund (IMF) (WTO 2023; IMF 2023). Despite trade growth, on balance, Canadian SMEs and consumers remain in an unstable economic position with an affordability crisis arising and economic shocks not fully recovered for individuals and small businesses.

Challenges for Canada’s SMEs in Focus

Micro, small and medium-sized enterprises (MSMEs) face unique issues when it comes to trade policy (Machado, Scavarda, Caiado and Thomé 2021). Tactics used to help Canadian businesses rebound post-COVID may not be as effective for Canadian SMEs (ibid.). Stability and growth for SMEs largely hinges on the ability to export goods and services across borders. However, SMEs face a higher burden in exporting goods and services across borders (Jurado 2023). At a policy level, many free trade agreements (FTAs) require a “certificate of origin” for exporting firms, which can be challenging for growing businesses with financial constraints to obtain (ibid.). The WTO acknowledges that 95 percent of companies globally are MSMEs, therefore there needs to be strong assertive frameworks on inclusive trade, that promote under-represented members in all aspects of international trade (WTO 2017).

SMEs constitute a significant market share of Canada's export market, with 42.7 percent of Canada's exports being attributable to SMEs in 2021 (Innovation, Science and Economic Development Canada 2022). However, only 27.5 percent of Canadian companies with at least one employee(s) survive past 18 years in operation. With trade being a prominent source of income for companies, a business's longevity is determined by how well it can integrate into the international market and engage in import-export relations. Canada's Feminist International Assistance Policy plays an important role in addressing the challenges women and under-represented members face, and in creating opportunities that close gender gaps. Part of the international assistance policy is a \$123 million investment in Canadian small and medium organizations (SMOs) that engage in international assistance efforts (Government of Canada 2022). While this holds for SMOs, there is no framework or initiative present for SMEs that aim to contribute to Canada's economic growth in the global market. SMEs' connection with the intersectionality of gender and race has yet to be recognized as part of Canada's feminist policies.

Canada's Inclusive Trade Agenda

Canada has taken on board an inclusive approach to trade in recognition that most Canadians are supportive of international trade, but many Canadians also believe that more can be done to increase transparency in negotiations, loosen the privileges of private corporations, make trade work for the consumers and lessen adverse impacts on environments and marginalized groups (GAC 2023). To date, the Government of Canada (ibid.) has made efforts to re-center Canadians in trade policy making, expand access for Canadians to participate in trade and engage with international partners to achieve inclusive trade goals. Canada's inclusive trade agenda lies at the heart of the Canada Trade Diversification Strategy, as Canadians echo global concerns about the liberalization of trade (GAC 2023).

Canada has committed to increasing consultation with a more diverse set of stakeholders, such as women, Indigenous peoples, and SMEs (Government of Canada 2023). In recognition of the special and differential needs of SMEs, Canada has developed a domestic framework to incorporate SMEs into bilateral and multilateral FTAs (Government of Canada 2023). Two of Canada's bilateral FTAs, the Canada-Ukraine Agreement and the Canada-Israel Agreement, and multilaterally, the Canada-United States-Mexico Agreement and the Comprehensive and Progressive Agreement on the Trans-Pacific Partnership (CPTPP) have embedded stand-alone chapters on SMEs

into their trade agreements (Government of Canada 2023). While Canada has committed to incorporating SMEs in its future bilateral and multilateral FTAs, it has yet to do so to existing FTAs and to the Foreign Investment Promotion and Protection Agreement (FIPPA) Model. An analysis conducted by the Office of the Chief Economist in 2023 on the efficacy of stand-alone chapters for SMEs shows that more work is required to embed Canada's SMEs and under-represented members in trade and investment agreements. Their analysis of the CPTPP's implementation of chapter 24 on SMEs showed an increase of 12.3 percent in exports by Canadian SMEs (GAC 2023) Chapter 24 of the CPTPP shows some successes that can arise from including SMEs in FTAs, but the results are not yet conclusive and, do not prove a causal connection between stand-alone SME chapters and growth in export capacity. Moreover, the Office of the Chief Economist's analysis only provides enigmatic results and no data that can be used for policy making. Another set of tools available for SMEs in Canada is the Trade Commissioner Service (TCS) office which provides the connection and tools to facilitate international trade and financial loans available to SMEs. Neither the CPTPP nor the TCS provide the right solutions, as there are more pertinent solutions in place to address the lack of export growth by Canadian SMEs and other underrepresented trade actors (Government of Canada 2023).

International Partnerships

Canada is also party to several international legal frameworks and participates in international groups focusing on beyond-the-border and novel trade policy. In 2017, Canada was a formative member of the WTO's Informal Working Group on MSMEs, which advocates for MSMEs at WTO Ministerial Conferences (WTO 2017). Canada also donates to the World Bank's Women Entrepreneurs Finance Initiative (We-Fi), which helps women-run enterprises access financial products and services, build capacity, expand networks, find mentors and link with domestic and global markets (World Bank 2023; We-FI n.d.). Additionally, the International Trade Centre (ITC), the International Chamber of Commerce (ICC) and the WTO have launched a joint Small Business Champions Initiative, which provides non-financial support to different marginalized groups every year, such as supporting MSMEs to go digital in 2021, supporting small businesses to reduce their carbon footprint in 2022 and small business holders in 2023. The year-specific goal for 2024 is empowering Indigenous peoples through international trade (WTO 2021). Finally, the ITC, ICC and WTO have formed the Alliances for Action, which

focuses on resilience and growth for farmers and SMEs through responsible trade, production and consumption systems (ITC 2023).

Although Canada is donating to We-Fi and is an active member of the WTO informal working groups, it needs support from these international partnerships for the MSMEs led by Canadian marginalized groups (women, Indigenous MSMEs). The research shows many hurdles on the way to internationalizing the Canadian women-led or Indigenous-led MSMEs. The Canadian women-led SMEs have drawbacks such as less acceptance by other business owners/clients, fewer financial and non-financial resources, and less research on obstacles faced by women-owned SMEs in international trade. In addition, Indigenous women-led SMEs find the information gap on external markets as one of the major obstacles (Orser, Riding and Townsend 2012; Lituchy et al. 2006). By leveraging existing international agreements and partnerships, Canada can be more successful in internationalizing domestic women and Indigenous-led SMEs.

Recommendations

GAC should seek out new paths to revise current FTAs and the FIPPA Model. Canada should revisit its existing FTAs and FIPPAs and work with their counterparts to include a strong text that is all-inclusive of SMEs and under-represented members. When looking for support, GAC should reach out to Canada's SME Advisory Board for support.

GAC should collect tangible data on inclusive trade, to better identify gaps and track progress. Canada should leverage the data collection from the Office of the Chief Economist in partnership with Statistics Canada to collect tangible progress and present objective data on the value of Canada's approach to inclusive trade. Research should be focused on understanding the impact of intersectionality among Canadian SME ownership to implement better policies that address SMEs.

GAC should continue to leverage international frameworks and partnerships. Canada can get more involved in the WTO informal group initiative to promote Canadian women-led MSMEs. Canada should join the Digital Cooperation Organization to encourage entrepreneurship and digital inclusion of small businesses. Canada can strengthen FTAs by aligning trade policy goals based on the Canadian Indicator Framework for success in achieving the UN Sustainable Development Goals (SDGs) (United Nations [UN] 2015). Specifically,

Canadian trade policy should aim to meet commitments of SDGs 8, 9, 10 and 12. Canadian FTAs should promote jobs in the clean technology products sector under SDG 8: "Decent work and economic growth," and under SDG 9: "Industry, innovation, and Infrastructure" by promoting gross domestic expenditure on research and development intensity, and access to modern and sustainable infrastructure. The area driven under SDG 12: "Responsible production and consumption" should enhance the businesses adopting selected environmental protection activities and management practices. Moreover, SDG 10: "Reduced Inequalities" should guide the activities of international frameworks, prioritizing disadvantaged areas such as to ensure stakeholders of trade agreements be free of discrimination, inequalities or unfair treatment (ibid.).

TCS should identify and implement more export support programs for members of the Trade Diversification Strategy. The TCS can draw from existing international partnerships, such as the World Bank, to find resources and promote knowledge transfer that can aid in the internationalization and export capacity of Canadian SMEs. The TCS should also utilize domestic funding through the Canadian Feminist International Assistance Policy to invest in women-led SMEs.

GAC should include SMEs as part of Canada's Feminist International Assistance Policy. As part of Canada's global role in promoting gender equity and feminist policy, it should include initiatives that promote SMEs, much like the initiatives held for Canadian SMOs within Canada's Feminist International Assistance Policy.

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