

Roger Martin argues that expanded international trade can contribute to Canada's and Ontario's prosperity. Trade is important to stimulate innovation, economic success, and prosperity and is becoming increasingly important to developing economies. However, Canada and Ontario are underperformers in innovation. This paper considers how trade with China and the European Union could stimulate innovation.

- **Key Concepts**

- Types of economies: low-cost based economies depend on the low cost of labour and natural resources to compete globally; innovation-based economies are driven by skilled labour to produce high value added goods and services creating a competitive advantage
- Tipping point: when an economy evolves from low-cost competition to innovation-based competition which occurs with the development of sophisticated institutions and the presence of sophisticated consumers with intense competition

- **Trade and Innovation in Canada**

- Trade leads to larger market opportunities and access to better supplies of materials, people, and capital
- It is important to carry out trade among several economies to ensure business success, higher wages for employees, and better choices and lower prices for consumers
- Canada and Ontario are underperformers in innovation in terms of low productivity
- International trade can provide both specialized support and competitive pressure to enhance Canada's productivity and innovative capacity
- Drawing on the capabilities of immigrants and developing better ways to help displaced workers will develop trade and innovation success
- Greater access to foreign markets increases innovation, which in turn raises productivity
- The BRIC nations (Brazil, Russia, India, and China) will become the source of innovation as they reach the tipping point making it important for Canada to compete and collaborate with them effectively
- When China and India reach their tipping points, innovation will shift away from developed economies

- **China**

- China is moving from a low-cost based economy to an innovation-based economy
- China has not reached an innovation tipping point as there is still significant investment in R&D and students studying internationally are not returning
- China's trade has not yet had a negative effect on Canada's economy but as its innovation capacity develops, it will become a more sophisticated competitor
- Jobs in Canada's manufacturing industry are decreasing but China is not the primary cause of current weaknesses in manufacturing employment
- China is using low-cost wage earners to assemble high-value components designed and produced elsewhere
- Types of industries with low value added per worker are most likely to lose jobs to China as seen in the rise of exports from China to Canada in the manufacturing industry
- Increase in imports from China also has no correlation to the percentage of workers in involuntary or part-time work in Canada

- **The European Union**
- The European Union is Canada's most important trading partner after the US but the trade relationship between the countries is underdeveloped
- With the US still in economic recession, the case for increased trade partnerships with the EU is strong for immediate economic benefits and expanding and diversifying trade
- Expanding trade with this innovation based economy can increase the support and competitive pressure for Canadian businesses
- Canada and the EU are working on negotiations toward the Comprehensive Economic and Trade Agreement which in part will focus on trade in goods and services, investment, temporary entry of business persons, and labour
- **Recommendations for trade, innovation, and prosperity**
- To promote innovation in Canada, the following must be considered: productivity performance is low, businesses perform less R&D than other developed countries, production of patents is lower per population than the US, less investment in advanced communications and information technology, and clusters of trade industries are not as competitive as the US
- Opportunities to trade with developing economies should be welcomed in order to strengthen innovation
- Greater trading opportunities with China should be pursued to benefit from both its low-cost position and from the pressure that trade with China will put on innovation capabilities in the future

Key stats:

*Unemployment, U of T economist Daniel Trefler found that "the fall in the Canadian tariff forced many import-competing Canadian plants to contract and even exit. About 100,000 workers were forced to look elsewhere for employment. Fortunately, most found jobs in export-oriented plants, so that unemployment rates did not rise, and wages did not fall" (p. 14)

*World Trade Organization: in 2009, the global economic crisis led to a 12.2 percent fall in global trade (p. 15)

* 26 Canada and the WTO, Foreign Affairs and International Trade Canada, "Canada is the ninth largest exporter and tenth largest importer in the world, with trade being linked to one in five jobs and being responsible for 67.6 percent of Canada's GDP" (p. 17)

*In 2008, [China] accounted for 8.9 percent of global exports and 6.9 percent of imports, positioning it as the world's second largest exporter and third largest importer (p. 26)

The five Canadian industries most affected by Chinese imports represent 61 percent of all Chinese imports to Canada, but account for merely 2.5 percent of our GDP... Rather, our GDP is dominated by services (70.4 percent of GDP) and, to a lesser extent, goods-producing industries like construction (6.1 percent of GDP), mining and oil and gas extraction (4.5 percent of GDP), and transportation equipment manufacturing (2.5 percent of GDP). In reality, Chinese imports only affect a small fraction of our economy. (p. 36)

In 1985, Canada was home to 33 global leaders, and by 2003 this had grown to 87. In 2008 and 2009, the number of global leaders stabilized at 86, discrediting statements and theories that Canadian companies are being hollowed out. It is encouraging to find that almost half of all our global leaders are billion-dollar companies, increasing by 24 companies from 1985 to 2010, as excellent firms such as Bombardier, Gildan, and McCain joined the list.⁷ (p. 38)

The EU is Canada's second largest goods or merchandise trading partner, with total trade volume that is 48 percent higher than China's. The EU accounted for \$45 billion or 12 percent of Canada's merchandise imports, and \$30 billion or 8 percent of Canada's merchandise exports in 2009. Within the EU, Canada's largest trading partners are the United Kingdom, Germany, and France, with total trade in 2009 equalling \$21.5 billion, \$14.4 billion, and \$8.3 billion, respectively. (p. 46)