

Trade diversification always failed, this time could be different

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Danielle Goldfarb

Opinion

United States President Donald Trump's trade and geopolitical shocks make it clear that Canada needs to derisk and reduce its dependence on the U.S. market. Canadian leaders have tried and failed to diversify trade many times throughout our history. But trade looks different today. The ability to cheaply and easily sell many types of services digitally anywhere in the world may finally offer a promising path to diversification.



Trade in the future will look very different, since digitally-delivered services trade is the fastest-growing part of global trade in every region of the world, writes Danielle Goldfarb. Photograph courtesy of Alesia Kozik, Pexels.com

Traditional economic models show that trade follows "gravity." No matter how many trade deals Ottawa signs, it is just easier for Canadians to do business with the world's largest market next door. Proximity matters for integrated manufacturing, or for selling products or commodities that need to be shipped. And in the past, trade was limited to goods; you had to buy and sell most services locally.

Things have now changed. Many services, from insurance to engineering to architecture to financial, are sold globally. In addition, the ability to digitize information and send it anywhere makes proximity less important

for trade. With instant translation and cloud-based collaboration, businesses of any size can now trade new kinds of services anywhere. The rapid recent advances in AI capabilities are already creating new types of high-value services that can be sold globally.

Our trade discussion still focuses almost entirely on goods trade. That is understandable given that goods still make up the bulk of Canadian trade and given Trump's tariffs and threats to border infrastructure. But that focus is short-sighted: trade possibilities today extend far beyond physical goods. When we include services and digital trade, Canada's trade portfolio is already

more geographically diversified than the 75 per cent of exports to the U.S. cited in headlines.

One example of a globally successful Canadian digital export that barely features in our trade discussions is the breakout hit *Heated Rivalry*. The series has rapidly growing audiences not only in the U.S., but in the Philippines, Taiwan, and Australia, and many other markets.

This is one example of the wide array of digital services that Canadian companies are already selling globally. Canadian exports of digital services such as software and IT consulting have grown nearly four times faster than this country's other exports over the past two decades. They now account for over one in 10 of Canada's total exports of goods and services.

Trade in the future will look very different, since digitally-delivered services trade is the fastest-growing part of global trade in every region of the world. The fastest-growing importers of digital services include Indonesia, Vietnam, Chile, Peru, the Philippines, and India where demand for digital solutions is growing rapidly across sectors like IT, fintech, and e-commerce. Many fast-growth markets now import more digital services than traditional goods.

Digital services also face different barriers than goods trade. This means that they provide a hedge against tariff, border, and supply chain shocks and barriers. Growing digital exports therefore reduces the risk of Canada's broader trade portfolio.

While Canada's digital services exports have grown rapidly, they have not grown as rapidly as those of peers with similar levels of AI research expertise or GDP. Canada's share of global digital services exports remains below three per cent and has barely changed in two decades.

But Canada has major strengths it can build on to expand its digital trade, from world-class AI researchers, a highly-educated, services-based economy, and diaspora connections to emerging digital markets. Canadian policymakers have also been at the forefront of including digital provisions in trade agreements.

There will always be limits to Canada's geographic trade diversification. But digitization and AI expand trade possibilities and mean that trade will look very different in the future. If Canadian businesses take advantage of this broader and rapidly growing set of trade opportunities, the country can finally make more meaningful progress towards growing Canada's trade around the world.

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