

COVID-19 and CUSMA: Recommended Strategies for Economic Recovery and Business Continuity in Ontario

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At the Economic Developers Council of Ontario's 2021 annual conference "EvolveOn", Deniz Sera Asoglu and Brooklyn Boivin, students in the post-graduate Public Administration Program at Seneca College, summarized the workshop entitled "Looking over the Border: Opportunities to EvolveON with CUSMA". The moderator was Daniel Ujczko of AMCHAM CANADA, and panelists included Ross Prusakowski, Manager and Principal Economist, Export Development Canada, Flavio Volpe, President of the Automotive Parts Manufacturers' Association and Aylin Lusi, Vice-President, Public Affairs, UPS Canada

Abstract

The EDCO seminar which took place on February 3, 2021, titled "Looking Over the Border: Opportunities to EvolveON with CUSMA" highlighted the global impact of COVID-19 on both Canadian and global markets and trade, as well as the new opportunities that Canada-United States-Mexico Agreement (CUSMA) could potentially provide the North American markets and trade. Evaluating the implications of a new trade agreement without considering the many challenges that the pandemic has imposed is difficult. However, in an ever-changing, post-pandemic world, it is of the utmost importance to have a focus on adaptability and continuity in business operations as much as it is possible to do so in order to ensure Ontario remains as a competitive market and a valuable trading partner. To make this possible, there are three strategies that can be followed: (1) a trend of change from the traditional methods of doing business and conducting operational activities towards meeting new and constantly changing market demands by repurposing and using current infrastructure; (2) increased focus on ensuring the flexibility of operational activities to continue even with pandemic regulations by moving operational activities to an e-commerce platform, and for Ontario as a province, (3) increased focus on attracting foreign direct investment, on international trade agreements and on international trade facilitation. These three strategies, if followed, will allow Ontario businesses and by consequence Ontario markets to prosper even with the constraints of the COVID-19 pandemic.

Keywords: *COVID-19, CUSMA, Ontario, E-commerce, International Trade, UPS, Automotive Manufacturing, NAFTA,*

Introduction

The new Canada-United States-Mexico trade agreement, or CUSMA, began to take operational effect on July 1, 2020. Its predecessor, the North American Free Trade Agreement (NAFTA), had served an integral role in the North American and global economy.

The main objective of NAFTA was to establish a free-trade area between all signing countries most of which was retained under CUSMA ⁱ. This objective as well as many other features of NAFTA have been for the most part retained in CUSMA. The main difference between CUSMA and its predecessor are the new features involving digital trade, labor, environmental practices, regulatory practices, and certification of origin on any goodsⁱⁱ.

However, it must also be remembered that the implementation of CUSMA was during the global COVID-19 pandemic [Diagram 1](#) ⁱⁱⁱ.

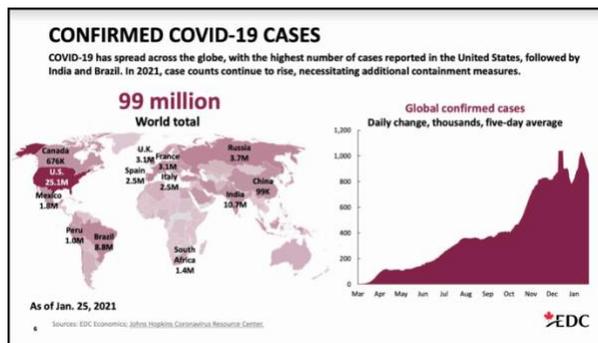


Diagram 1

Any North American and global implications of CUSMA are subject to the context of COVID-19, as no trade agreement can be evaluated independently of the pandemic and its consequences. CUSMA has provided North American businesses and trade with a degree of certainty and uniformity. COVID-19 is an important consideration not only due to its coinciding with the initial implementation of CUSMA but also because COVID-19 has changed the way global business is conducted in particular and the way any global operations are conducted in general. The current North American picture is that of the countries within CUSMA, there is a general lag in vaccine rollout [Diagram 2](#) ^{iv} and a restriction on the mobility of any persons across country borders. This has resulted in a unique uncertainty in the economic sense.

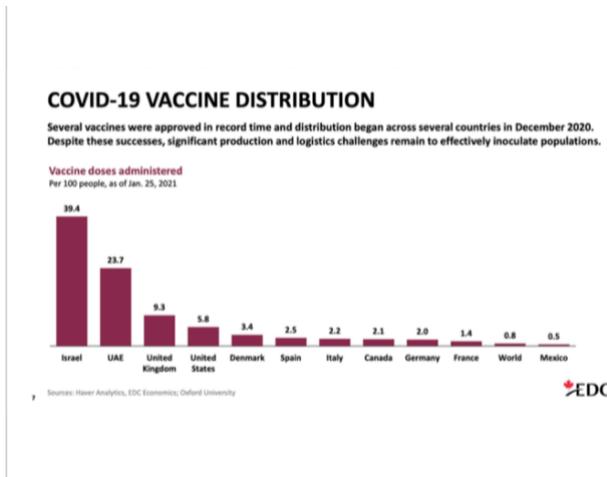


Diagram 2

Prices of goods that can be deemed commodities [Diagram 3](#)^v, and international air travel, [Diagram 4](#)^{vi}, shows a slight recovery trend but the losses during the first wave of the pandemic are still a long way from being recouped.

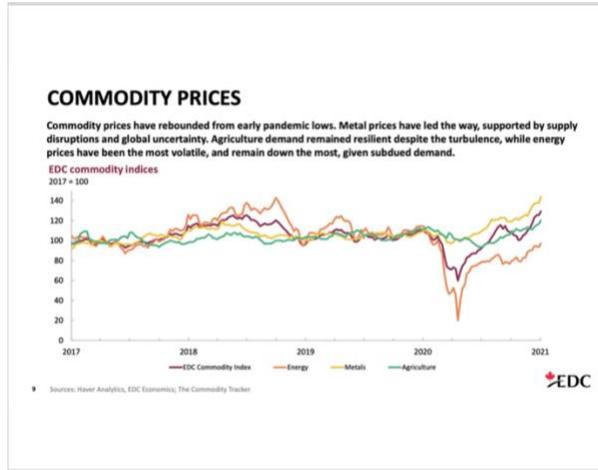


Diagram 3

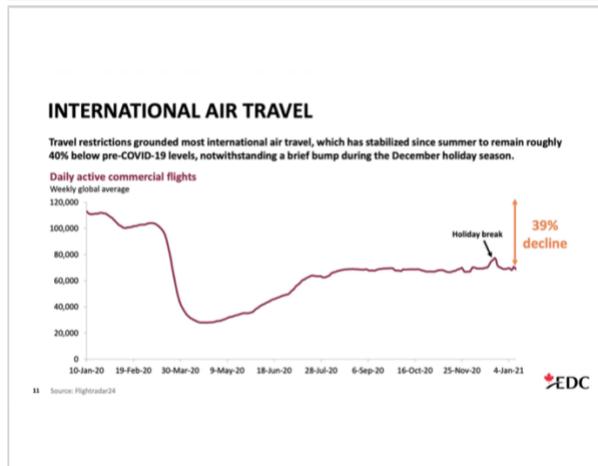


Diagram 4

The 2021 economic forecast [Diagram 5](#)^{vii} for the global economy is characterized by an attempt to recoup COVID-19 losses, and the 2022 economic forecast [Diagram 6](#)^{viii} for the global economy is similarly concerning due to uncertainties caused by the global pandemic.

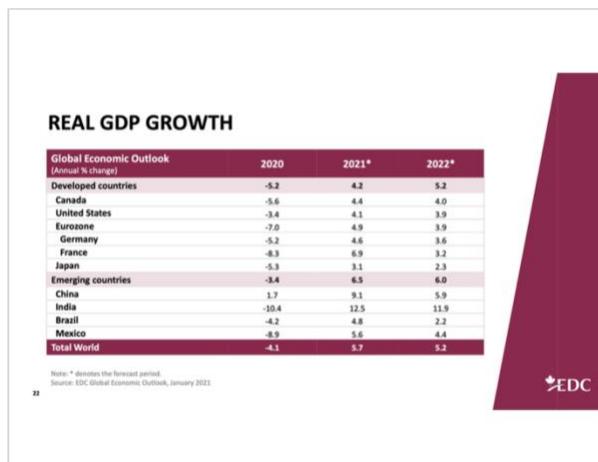


Diagram 5

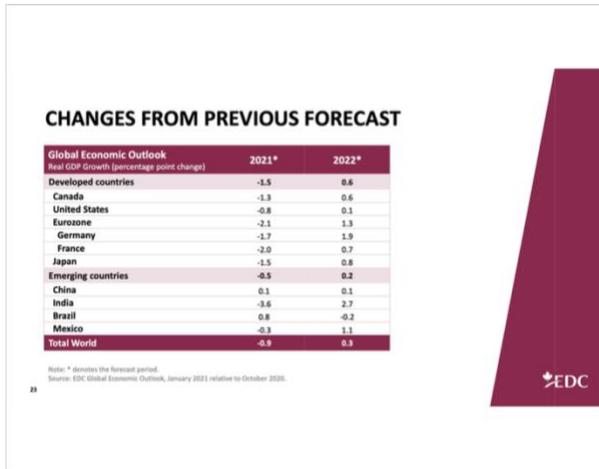


Diagram 6

Canadian trade patterns [Diagram 7](#)^{ix} have seen some development, but the trajectory of these trade patterns roughly mirrors the trend that has been unfolding globally.

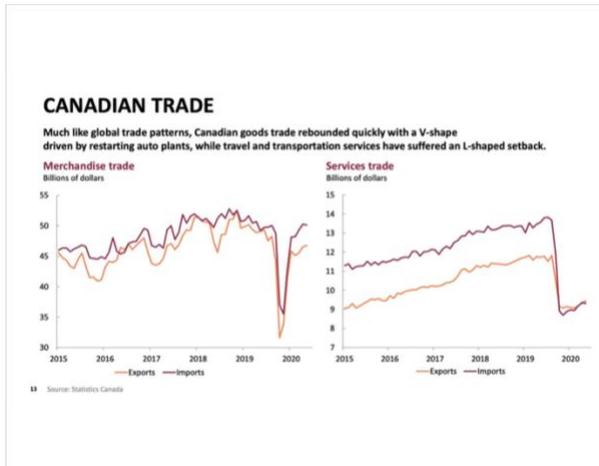


Diagram 7

The Canadian service sector has struggled to recoup losses within the fiscal period of the first wave of the COVID-19 pandemic. Sectors within this field such as in-person service jobs, tourism, and restaurants have yet to show any post-first wave pandemic recovery [Diagram 8](#)^x.

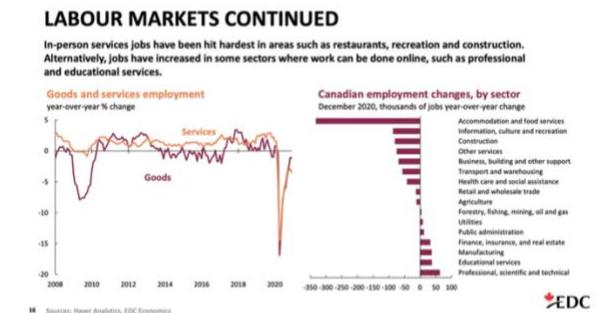


Diagram 8

Other fields within the Canadian economy such as technology, education, and work, where staff have been able to make the transition to working from home, have been able to recover some of the losses incurred during the first wave of the COVID-19 pandemic^{xi}. The key to economic recovery both for Canada and for the international economy is adaptability to the ongoing and constantly shifting challenges imposed by the pandemic.

There are three recommended strategies that Ontario's businesses could follow in order to adapt to the global COVID-19 pandemic in order to retain stability and continuity in business operations; as well as to ensure that Ontario can retain its character as a competitive global economy.

1) Innovate to meet new and constantly changing market demands by using and repurposing pre-existing infrastructure in Ontario

While CUSMA aims to liberalize trade in North America the COVID-19 pandemic caused the first unprecedented border closure for "non-essential travelers". The approval or denial of the entry of individuals into country borders were dependent on the enforcement of individual agents, who were also enforcing border closures. Therefore, this created a regulatory system with little uniformity, and it contributed to a sense of uncertainty in the business and global trade context. Somewhat undermining the purpose of CUSMA. This change in border control resulted in a change in what commodities were in demand both in the national level and in the global level, as well as resulting in a situation where, for all countries, domestic production of certain commodities gained importance.

An illustration of such a challenge can be seen in the Canadian automobile industry. The border closures and constant changes in border regulations created a situation where Canadian manufacturers became increasingly dependent on the United States during the initial peak of the COVID-19 pandemic. The automobile industry was forced to shut down, which was a first for the industry. While automotive sales and demands during this period were in decline; other commodities, such as Personal Protective Equipment (PPE) products, had seen a sharp increase in demand, and critical supply shortage because the suppliers of these commodities could not keep up with the demand.

As a response to these changes, the Canadian automotive manufacturers used their knowledge and existing manufacturing capacity to help fill supply shortages of ventilators and build machines that could produce other PPE. Making the choice to repurpose existing infrastructure to suit the ever-changing demands of the marketplace and to manufacture locally was a wise decision because some of these manufacturing companies are the largest employers in their town. This innovation during the COVID-19 pandemic has forced manufacturing companies in North America to gain new levels of utility not seen in the last 25 years.

This example could be used as a blueprint by many Ontario businesses in order to take advantage of the current post-pandemic economy: in order to meet the ever-changing new demands of the marketplace, existing infrastructure could be repurposed to create a new domestic supply of the desired commodity.

2) Increase focus on shifting operational business activities to e-commerce

COVID-19 has accelerated and cemented many changes, especially in the e-commerce industry. There has been an exponential growth in online retail sales. While many corporations and business models are suffering as a direct result of the COVID-19 pandemic, UPS is an example of how a business can thrive during the post-pandemic economy.

UPS is a part of the infrastructure of global trade and operates as a logistics and package delivery company providing supply chain management services. In Ontario the driving force of trade is the moving of goods. UPS has been able to successfully adapt to the shifts in the new service demands. UPS is a company whose operational activities span across countries around the world and CUSMA plays an integral role within UPS operations. Specifically, CUSMA provides uniformity across North American countries in terms of activities such as goods verification processes, de minimis standards and declarations of origin. Trade agreements through the lens of an international company such as UPS are essential tools to inform and to shift the dynamics of global trade.

UPS has seen an opportunity to leverage CUSMA and to make use of the current marketplace as impacted by the COVID-19 pandemic. This has been done by their operational activity taking on the role of a pseudo-essential service. For example, UPS has been fully involved within the distribution of the COVID-19 vaccine and has successfully delivered half of all of the COVID-19 vaccines.

While most Ontario companies do not conduct operational activities based around such an essential commodity, it is important for all companies to make a shift from in-person sales to e-commerce or other means of commerce that can take place without breaking local public health COVID-19 restrictions in order to achieve success. The success of UPS during the COVID-19 pandemic relied on their ability to adapt to how consumers quickly jumped from bulk-buying to online shopping. This example can show Ontario's businesses the proper way to shift successfully to e-commerce. Ontario's businesses need to adapt and be flexible by taking advantage of government trade agreements such as CUSMA by meeting the new needs of customers in order to ensure the success of their business and to attract and retain customers.

3) Provincial focus on attracting direct foreign investment, on international trade agreements and on international trade facilitation in general

While this may seem contradictory towards the first point raised in this article; it is important for Ontario's governments and Ontario's businesses to focus on international trade as well as to increase domestic output of any goods that are currently in demand. The government of Ontario acknowledged the importance of their role in helping businesses remain competitive in order to increase trade. The only way Ontario's businesses can remain competitive in light of the difficulties imposed by the pandemic is through provincial aid to assist with operational activities and connecting them to a global marketplace which can take three forms:

1. encouraging direct foreign investment in Ontario,
2. informing businesses on CUSMA rules and regulations so that they can take advantage of the opportunities CUSMA provides, and
3. by focusing on other international trade agreements as well.

Encouraging direct foreign investment is a current important focus of Ontario's government in order to increase businesses operating in and setting up headquarters or manufacturing facilities across the province. Policies passed by Premier Ford to lower the costs of doing business in Ontario made Ontario a much more attractive location for businesses. Premiums, utility costs and taxes payable for businesses have been significantly lowered; grossing at a decrease of all operational business costs 7 billion CAD\$ a year.

Secondarily, CUSMA is important in order to reinforce economic ties and business growth between the three countries in North America. Currently, the supply trade between Ontario and the U.S. is integral for all supply chains for both countries. Due to the importance of the U.S as a trading partner, businesses being aware of and adhering to CUSMA rules and regulations is important. CUSMA, when taken advantage of fully by all Ontario businesses, can benefit the Ontario market by making trade more transparent and stable, reducing barriers to trade, improve access for service companies, increase competitiveness and increase market presence. CUSMA can also potentially benefit Ontario's middle-class and address modern-day trade issues and support the growth and prosperity of Ontario and Ontarians businesses to excel in the large North American market. In the context of the economic uncertainty of a pandemic, CUSMA can benefit small and medium-sized enterprises in Ontario by continuing to have access to the markets in the U.S. and Mexico.

Lastly, while CUSMA is an important trade agreement for Ontario, Canada which is also party to numerous other international trade agreements such as the Trans-Pacific Partnership (TPP). [xii](#) Increasing the focus on these international trade agreements will allow Ontario and Ontario businesses to prosper by increasing their access to other global markets that are not included within CUSMA.

Conclusion

In order to adapt to the COVID-19 pandemic to maintain growth and success in the North American and global market, the panellists recommended the following three strategies: (1) innovating to meet new and constantly changing market demands by using and repurposing pre-existing infrastructure in Ontario; (2) increasing focus on shifting operational business activities to e-commerce; and (3) increasing provincial focus on attracting foreign direct investment, increasing focus on international trade agreements and on international trade facilitation in general. The panellists hoped that by using these recommendations during a time of economic uncertainty, Ontario businesses will still retain consistency and advancement in business operations.

NOTES

ⁱ The characteristics of this free-trade area were to be that there would be “conditions of fair competition, increased investment opportunity, effective protection and enforcement of intellectual property rights, and establishing a framework for further trilateral collaboration and co-operation to expand and enhance the benefits of NAFTA” (“North American Free Trade Agreement- Objectives”).

ⁱⁱ “Explore key changes from NAFTA to CUSMA for importers and exporters”- Government of Canada.

ⁱⁱⁱ See diagram 1.

^{iv} See diagram 2.

^v See diagram 3.

^{vi} See diagram 4.

^{vii} See diagram 5.

^{viii} See diagram 6.

^{ix} See diagram 7.

^x See diagram 8.

^{xi} See diagram 8.

^{xii} “Trade and investment agreements - Government of Canada”.

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Attachments

[Diagram 1](#)

[Diagram 2](#)

[Diagram 3](#)

[Diagram 4](#)

[Diagram 5](#)

[Diagram 6](#)

[Diagram 7](#)

[Diagram 8](#)