COVID-19 Consumer Trends and GAC's Role in the Digital Economic Recovery

Benedikt Beck, Shawn O'Connor, Natalie Playford and Ayla Rath

Issue

To capitalize on the digital economic trends emerging from the COVID-19 pandemic, Canada must advance an inclusive and multilateral policy framework for e-commerce and digital trade to create an equitable pandemic recovery.

Background

The COVID-19 pandemic is having a significant impact on consumer behaviours; none more so than the accelerated and broad adoption of e-commerce. E-commerce is the trade of goods and services vis-à-vis online platforms, and the transfer of money and data involved in such transactions (Shopify 2021). Through lockdowns and work-from-home mandates, consumers have grown comfortable with online marketplaces and become accustomed to digital providers. Unlike other consumer shifts in mobility, savings or home-nesting, which are proving transitory, the e-commerce shift is expected to prevail in a post-pandemic world. In 2020, e-commerce sales increased from 15.8 percent to 23.3 percent of global sales whereas global non-digital output fell by 4.3 percent (UNCTAD 2021; von Abrams 2021). Albeit not a new trend, COVID-19 accelerated pre-pandemic adoption trends of digital commerce by five-to-ten years (Remes *et al* 2021).

A Resilient Recovery

Pandemic economic trends showed that consumers with access to online platforms could circumvent location-based supply-chain problems as digitalized firms could re-route production and delivery channels. Data-driven digital economic actors in all retail sectors proved more capable of managing complex trade flows and supply-chain disruptions. In addition, they demonstrated the ability to efficiently connect the global supply and demand of goods and services. In Canada, while the economy shrank by 5 percent in 2020, digitally-platformed firms grew by 3.5 percent (CBC News 2021). The benefit is more pronounced in small-and-medium sized enterprises (SMEs) who can expand beyond location constraints. For example, 63 percent of digitalized SMEs export compared to 12 percent of non-digital SMEs (OECD 2021).

Digital platforms generate network effects that lower transaction costs for both consumers and producers (Zhu and Lansiti 2019). The digital economy therefore offers Canada the best avenue for an inclusive and efficient economic recovery from the pandemic. For every 10 percent increase in digital exports, there is a 1 to 1.5 percent increase in GDP growth (Industry Strategy Council 2020).

Despite the Digital Adoption Program (CDAP) and an increased demand for digital services, Canada lags behind its OECD partners as less than 25 percent of SMEs employ an e-commerce platform (BDC 2021). If Canadian businesses fall behind consumer trends, they could potentially be squeezed out of e-commerce markets before they even enter.

According to a 2021 Business Development Bank of Canada (BDC) report, over 60 percent of Canadian business owners are hesitant to trust their proprietary data with online commercial platforms. Canada's Digital Charter was established to build "trust in the digital world" and promote a transparent framework ensuring that data is being protected. However, Ottawa has yet to declare how they will protect Canadian firms' proprietary data, which is essential for next-generation firms, when operating in foreign online markets. GAC can supplement cross-border data safeguards by helping train Canadian professionals to navigate international e-markets.

Canadian firms also struggle to find relevance in foreign markets as only 3 percent of digitally-enabled SMEs can be found on international e-commerce platforms. Likewise, large Canadian firms struggle to compete with international counterparts given adverse cost factors in courier and transport services sectors (Standing Committee on International Trade 2018). There is no foreign exchange insurance, targeted intelligence or marketing consortium provided by GAC to help scale-up Canadian distributors into foreign online markets.

Canada's Place in the Digital Economy

Canada has sought to modernize domestic systems over the past decade in preparation for the future digital economy. The Digital Privacy Act was passed in 2015 to amend the Personal Information Protection and Electronic Documents Act to include online privacy safeguards (Office of the Privacy Commissioner of Canada 2015). In 2018, Canada launched its National Intellectual Property (IP) Strategy (CIPO 2018). The 2020 Digital Charter Implementation Act introduced regulations on data governance and CDAP encouraged SMEs to adopt online business models. Nonetheless, these domestic initiatives have not evolved into a consorted international digital strategy as Canadian firms continue to fall behind international competitors.

The digital market is dominated by China (52.1 percent), the U.S. (19 percent), and Europe (11.7 percent), while Canada only accounts for 1.3 percent of online transactions (von Abrams 2021). Despite its small digital presence, Canada has proven effective at protecting "made-in Canada" digital trade norms like copyright liabilities, as noted in the annexes of the Canada-United States-Mexico Agreement (CUSMA), the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Yet, this only protects Canadian policies in the national jurisdiction and does little to promote values enshrined in the Digital Charter abroad.

Plurilateral progress through the WTO negotiations on the trade-related aspects of e-commerce and Trade in Services Agreements have stalled as states seek to maintain regulatory flexibility in the novel digital economy. Canada has relied on bilateral and multilateral free trade agreements (RTAs) to advance its digital economic values. This includes agreements with Chile, the Republic of Korea, CETA, CPTPP and CUSMA. Yet, these agreements are inconsistent, focus on *old school* issues like custom duties and paperless trading, and fail to harmonize on issues like data governance, IP, data localization and privacy rights.

Canada's decision to seek accension into the Digital Economy Partnership Agreement (DEPA) with Chile, New Zealand and Singapore is a promising first step to address emergent and more pressing digital-economic regulatory concerns like digital security, fintech, inclusion and digital-product non-discrimination. DEPA should be used as a baseline for current RTA negotiations with the UK, India and ASEAN to promote digital interoperability and future digital economy harmonization.

Inclusion and the Digital Divide

In theory, the digital economy should be more inclusive due to lower transaction costs and its ability to overcome geographic constraints – offering economic development potential for developing countries. The problem is that generating rules on cross-border e-commerce that are fair for both advanced and developing economies has proven difficult, given the disparity in technological access to online markets.

Many developing countries are unable to capitalize on new e-commerce opportunities as they lack infrastructure, such as affordable network services, reliable bandwidth and adequate malware or privacy protection. Beyond improving basic digital literacy, higher digital connectivity via accessible ICT infrastructure can increase the participation of SMEs in developing countries within both forward and backward linking supply-chains. SMEs in developing countries with a website have an 8 percent higher share of international trade (WTO 2018).

Canada can promote inclusive development in these countries while also capitalizing on untapped e-commerce markets. In the first half of 2020, Jumia, an African e-commerce platform reported a 50 percent increase in daily transactions, while Mercado Libre, the Latin American equivalent, doubled its sales (UNCTAD 2021).

The lack of ICT infrastructural capacity in developing economies inhibits full realization of the developmental potential of the digital economic revolution. Foreign direct investment in ICT infrastructure in Africa and Latin America would go a long way in supporting economic development goals while facilitating future market opportunities for Canadian consumers and firms. These ICT investments should specifically target rural regions in order for the benefits to be primarily realized by women in accordance with GAC's International Feminist Assistance Policy (IFAP).

Canada must also close the digital gender and Indigenous divides in its own jurisdiction. Women entrepreneurs earn 58 percent less than men who run similar businesses on e-commerce platforms (Paypal 2018). Additionally, surveys indicate women entrepreneurs are 0.8 times more likely to sell their products and services internationally but lack the same financing opportunities to 'go global' (Global Entrepreneurship Monitor 2019). Canada's Playbook for Gender Equality in the Digital Age and promotion of gender parity provisions in plurilateral and bilateral trade negotiations are welcomed but need to transpire into redlined issues for future agreements and services regulations. Closing this digital gender divide could unlock $88.2 billion for the Canadian economy (PayPal 2018).

Indigenous communities also face significant barriers online despite being nine times more likely to operate through e-commerce markets due to remote locales. Canada has proven effective affirming Section 35 of the Constitution Act by including dedicated Indigenous general exceptions, like that in CUSMA. Yet, GAC Indigenous Working Groups (IWGs) fail to address digital economic issues including international exposure. For example, there are over 50,000 Indigenous SMEs operating online, but only 24 percent of them engage in digital cross-border trade (RBC 2021)

The digital revolution accelerated by the pandemic provides an opportunity to modernize Canada's economy in a manner consistent with GAC's Ministerial Mandate. Through the right foreign and trade policies, Canada can strengthen its middle class by facilitating digital trade opportunities. Furthermore, GAC can ensure the digital economy is inclusive by removing barriers for marginalized groups and providing development opportunities abroad.

Recommendations

1. **Canada should promote its Digital IP Strategy through its accension into DEPA:** Although DEPA provides Canada with an opportunity to participate in the development of global norms on digital non-discrimination, e-payments and emergent technology standards, it is silent on IP and cybersecurity. Canada's Digital IP Strategy is unique amongst DEPA members and can be the cornerstone for developing IP hard and soft laws for next generational issues like data governance, trade secrets, competition law and Indigenous peoples' knowledge and culture. More importantly, by advancing Canadian digital norms abroad, Canadian firms will be more likely to explore foreign digital markets.

2. **Establish a sales and marketing consortium under the mandate of the Trade Commissioner Service.** GAC should cooperate with the BDC and Export Development Canada (EDC) to engage in direct consultation with SMEs as a means of increasing the exposure of Canadian firms abroad. Canadian SMEs occupy a small slice of global online retail space and have not capitalized on the potential of digital trade exports. A consortium will help provide technical expertise, intelligence on foreign sale opportunities and the infrastructure financing needed by Canadian digital firms to penetrate emerging e-commerce

markets and broaden international sales potential. This is in line with the recommendations of the Information Technology Association of Canada and would significantly increase the international exposure of Canadian firms, and especially SMEs.

3. **Canada should eliminate digital participation barriers for women, Indigenous peoples, people of colour, members of the LGBTQ+ community and other marginalized groups**. These groups are underrepresented in online marketplaces and constitute untapped value potential. The Trade Commissioner Service should work through the CDAP with other government departments to target businesses run by the aforementioned groups and finance their online training, ICT and overseas advertising. This could be done by emulating GAC's IWGs for other marginalized demographics. Canada should advance provisions on gender, race and sex non-discrimination in future trade agreements, as it did in the recent WTO Joint Statement Initiative for Services Domestic Regulation (WTO 2022). This would strengthen RTA chapter-specific reservations, exceptions and exclusions pertinent to marginalized groups in Canada; and therefore, encourage greater commercial participation by these groups.

4. **Canada should invest in ICT infrastructure in developing countries to build integrated online market networks.** Investing in ICT infrastructure can benefit rural communities in the developing world and improve electronic literacy while making global e-commerce markets more accessible. By expanding bandwidth and general access to online markets, Canadians could tap into $400 billion of potential future value in developing markets (von Abrams 2021). GAC should prioritize ICT investments that promote access to Canadian markets and benefit women entrepreneurs in accordance with FIAP.

5. **Canada should promote global interoperability on data, privacy and emergent technology national frameworks in its future WTO Concept Papers.** With WTO negotiations on the trade-related aspects of e-commerce stymied, Canada should use its WTO concept papers to establish interoperability between divergent national e-commerce frameworks. It is imperative for businesses and consumers to benefit from consumer trade. Canada should advocate for a 'passport-system', common in e-payment and electronic document trade provisions, for data flows, technological innovation and copyright protections. Canada's unique position between American, Asian and European digital trade regimes means it can be a galvanizing force for harmonization at the WTO and through the Osaka Track.

About the Authors

Benedikt Beck is a student in the University of Konstanz's Master of Politics and Public Administration program, on exchange at the Balsillie School of International Affairs.

Shawn O'Connor is a student in the University of Waterloo's Master of Arts in Global Governance program, based at the Balsillie School of International Affairs.

Natalie Playford is a student in the University of Waterloo's Master of Arts in Global Governance program, based at the Balsillie School of International Affairs.

Ayla Rath is a student in Wilfred Laurier University's Master of International Public Policy program, based at the Balsillie School of International Affairs.

Acknowledgements

The authors would like to thank Dr. Alan Whiteside and Indra Noyes for their continued guidance and support throughout the development of this brief. Additionally, we would like to offer a special thanks to Dr. Andrew Thompson, along with the Balsillie School of International Affairs and Global Affairs Canada for their support and feedback throughout this project.

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