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INSIGHTS

Tourism, Peer Platforms and Trade

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RECENT DEVELOPMENTS OF INTEREST TO ISED

BANK OF CANADA RELEASES ITS LATEST MONETARY POLICY REPORT

- ❖ The April 2016 edition of the Bank of Canada's *Monetary Policy Report (MPR)* forecasts global economic growth of 3.0% in 2016 before strengthening to about 3.5% the following year, reflecting improvements to financial conditions partly due to actions taken by various central banks.
- ❖ These are below the estimates from the January MPR, reflecting weaker than expected investment in emerging market economies; growth forecasts were also downgraded for the US, the Euro area, Japan, and oil-importing emerging market economies.
- ❖ Canada is forecast to grow at 1.7% in 2016 and 2.3% in 2017, representing an improvement of 0.3 and a downgrade of 0.1 percentage points, respectively, relative to the January MPR estimates. Canada will continue implementing complex structural adjustments resulting from the oil shock, which will likely dampen growth in the near term.
- ❖ Strong fundamentals are expected to solidify US GDP growth over 2016, including strengthened labour markets, high consumer confidence, low oil prices, and an accommodating monetary policy.
- ❖ China's GDP growth is expected to gradually slow from 6.9% in 2015 to 6.3% in 2018, as it continues to rebalance its economy away from investment and heavy industry towards consumption and the service sector.

INTERNATIONAL MONETARY FUND RELEASES ITS UPDATED WORLD ECONOMIC OUTLOOK

- ❖ The International Monetary Fund's *World Economic Outlook (WEO)* examines economic developments and policies in member countries, international financial markets, and the global economic system.
- ❖ Compared to the previous WEO in January, the growth outlook for the global economy was downgraded 0.2 percentage points to 3.2% in 2016. The outlook for 2017 was also downgraded 0.1 percentage points to 3.5%.
- ❖ The report expects a gradual normalization of conditions in several economies currently under stress, the successful rebalancing of China's economy, and an acceleration in activity by commodity exporters.
- ❖ The outlook for Canada was downgraded 0.2 percentage points in both 2016 and 2017 to 1.5% and 1.9%, respectively.

EXPORT DEVELOPMENT CANADA PUBLISHES ITS GLOBAL EXPORT FORECAST

- ❖ Export Development Canada's *Global Export Forecast, Spring 2016* sets out to identify how major forces in the world economy impact Canadian exporters.
- ❖ The report forecasts Canadian merchandise export growth of only 2% in 2016, largely due to declines in exports from the energy, fertilizer, and chemical and plastics industries.
- ❖ Subsequently, a gradual strengthening of natural gas and crude oil prices is expected to boost energy-exporting provinces and raise national merchandise export growth to 6% in 2017.

BEST PRACTICES IN TOURISM AT WORLD HERITAGE SITES*

HIGHLIGHTS

- The recent study, commissioned by the Tourism Branch at ISED, sought to determine best practices in tourism at World Heritage Sites and identify implications for Canada.
- The study concluded that, as tourism destinations, World Heritage Sites can serve as engines of economic development for the regions in which they are located, provided that they follow a number of inter-related best practices aimed at supporting their universal outstanding value.
- Best practices in tourism development for consideration in Canadian World Heritage Sites include adopting a vision based on stakeholder collaboration, products that address visitor needs, an accessible destination area that creates memorable experiences, and modern marketing that effectively uses branding and digital technology.

BACKGROUND

Tourism is one of the fastest growing economic sectors and a major contributor to international trade. It also represents a significant source of income and foreign currency for many countries. Given uncertain prospects for the global economy, tourism is performing remarkably well. According to the United Nations World Tourism Organization (UNWTO),

About UNESCO

The United Nations Educational, Scientific and Cultural Organization (UNESCO) encourages the identification, protection and preservation of cultural and natural heritage around the world considered to be of outstanding value to humanity. This is embodied in the UNESCO [Convention concerning the Protection of the World Cultural and Natural Heritage](#).

World Heritage Sites (WHS) are places (natural or cultural) that meet the Convention's definition of **Outstanding Universal Value**— they are remarkable, universally recognized and offer a cultural, historic and economic value.

There are currently 1,031 UNESCO-recognized WHS in 163 countries. Canada has 17 UNESCO designated WHS, Australia has 19 and the US has 22. Attracting visitors has become an important incentive for WHS designation. Examples of prominent WHS include the [Pyramids of Egypt](#), the [Galapagos Islands](#) in Ecuador, and the [Rideau Canal](#) in Ottawa.

*This is a summary of *Best Practices at World Heritage Sites: A tourism-based comparative analysis of UNESCO World Heritage Sites in Canada, the United States and Australia*, Economic Planning Group and Susan McLeod Solutions, June 2015.

between 2010 and 2015, international arrivals have grown at an annual rate of over 4 percent, making tourism a desirable source of economic growth in many countries.

Tourism is the number one service export in Canada, representing almost 2 per cent of gross domestic product, \$90 billion in total revenues, and directly supporting over 637,000 jobs (2015). International visitors to Canada have been growing since 2010, reaching 17.8 million in 2015. This represents an increase of 7.5 percent relative to 2014, which significantly outpaced the 4.4 percent growth in international tourist arrivals worldwide that same year. However, despite this recent growth, Canada's position as an international tourism destination dropped from 5th place in 2009 to 10th in 2015 in the face of strong competition (World Economic Forum - WEF).

Attractions and destinations influence travel plans and decisions. As the lead department in federal tourism policy, ISED has worked to better understand the role of strategically important tourism destinations and attractions in stimulating economic growth. This includes a 2012 *literature review* commissioned by ISED to InterVISTAS, which listed a number of circumstances under which destinations and attractions could enhance a country's economic performance.

ABOUT THE STUDY

In 2015, ISED's Tourism Branch built upon its literature review asking researchers to produce a study on World Heritage Sites (WHS). This study (hereafter the WHS study), set out to:

- examine the extent to which each country and surrounding communities promotes, manages and leverages these assets as domestic and international tourist attractions;
- understand the significant features contributing to the success of WHS as tourist attractions;
- determine best practices with respect to tourism at WHS; and,
- identify implications for Canada arising out of these best practices.

It involved secondary research and interviews with site management, stakeholders and Parks Canada managers to identify and analyze all WHS in the three target countries, select eight sites for the case study, and determine best practices and implications for Canada.

The Eight Case Study Sites

- [Gros Morne National Park, Canada](#)
- [Wood Buffalo National Park, Canada](#)
- [Head-Smashed-In Buffalo Jump, Canada](#)
- [Purnululu National Park, Australia](#)
- [Kakadu National Park, Australia](#)
- [Willandra Lakes Region, Australia](#)
- [Mesa Verde National Park, United States](#)
- [Hawai'i Volcanoes National Park, United States](#)

WHAT DOES THE REPORT TELL US?

UNESCO WHS can be engines of economic development through tourism. They offer unique destinations for tourists; simultaneously, tourism offers WHS the ability to meet the requirement specified in the UNESCO Convention to 'present'

World Heritage properties. Protecting the value of heritage sites is a central objective for tourism initiatives that target these sites.

FIVE BEST PRACTICE CATEGORIES

The study focused on how to fully leverage the tourism potential of World Heritage Sites. In doing so, it identified a set of best practices that make WHS successful tourism attractions and sources of economic development and growth (see annex). These best practices are grouped into five inter-related categories aimed at protecting the Outstanding Universal Value of the heritage resource:

The Product. WHS provide a unique destination, and their economic potential can be further leveraged by offering accompanying products/experiences to enhance the experiences of visitors while still respecting the cultural and ecological integrity of the site. Determining precisely what kinds of products/experiences should be offered and how much needs to be invested will be based on assessing what potential visitors might expect. When Indigenous peoples and/or local hosts are engaged in shaping and delivering the products/experiences and have a say in investment decisions, the potential for community development is increased. The private sector can also be included in maintaining the site and its surrounding infrastructure and providing services to make visitors feel secure and welcome.

The Visitor. Adopting a visitor perspective in site management and programming is crucial to ensuring a continuous flow of visitors, thereby positively impacting the site and its surrounding communities. To this end, involved governments and



Defining the Product:

Gros Morne National Park, CANADA – With the participation of stakeholders, Park management identified and developed experiences using the [Explorer Quotient \(EQ\)](#), an innovative market segmentation tool developed by [Destination Canada](#) and licensed to Parks Canada. EQ helps obtain more targeted offerings matched to the needs and interests of visitors by helping businesses better understand visitor motivations and needs.

This process led to the creation of "The Red Chairs Experience Program", which encourages visitors to seek out red chairs that have been strategically placed at landscape viewpoints to enhance their exploration of the site. The program has proven to be so popular that red chairs are now featured in many Parks Canada sites across the country.

Profiling the Visitor:

Parks Canada Postal Code Data Capture, CANADA - Parks Canada collects data on visitors at point of entry, using surveys every few years, in addition to collecting postal codes and zip code information, in order to learn more about their habits and interests. This in-depth information is then used to inform the development of products and programs at a site, as well as the best marketing media to employ.

site management need to develop a visitor profile, understand demographic and market trends, and identify target markets, as well as their needs and expectations.

Vision and collaboration. Establishing an overall vision for a WHS is fundamental for management plans and strategies. This

Developing a Vision via Collaboration:

Kakadu National Park, AUSTRALIA – Park senior management, along with the governments of the Northern Territory and Australia, commissioned the development of a shared vision for tourism in the Park called “Walking to the Future Together – a Shared Vision for Tourism in Kakadu National Park” to reposition the Park as a unique destination with exceptional natural and cultural attributes and to feed into subsequent seven-year long management plans. Developing this vision involved extensive consultation and collaboration with a wide range of communities.

vision has to balance the motivations for tourism and economic activity with the imperative to protect the Outstanding Universal Value of the site. A specific vision for tourism in the destination area is also important, particularly if tourism and economic development are key motivations. In the sites analyzed, both the overall and tourism-specific visions were developed collaboratively with stakeholders. Collaboration is crucial for achieving these visions, as it enables different interested parties to align themselves with policies, regulations, funding programs and strategies, and embrace tourism. Collaboration will also facilitate contributions from different parties in a way that

funds capital projects and maximizes operations. Leadership in developing and implementing these visions is equally important.

Marketing. Marketing raises awareness and attracts visitors to a destination area. Successful WHS marketing is clear and convincing. It counts on a *strong and consistent profile* in destination marketing and a *strong brand* that is unique and attractive to target markets. The UNESCO WHS designation is increasingly being used as a marketing brand. As a growing number of visitors use *social media* to identify and select destinations, WHS are adopting a strong and engaging social media presence to complement their websites.

Convincing through Modern Marketing:

Hawai'i Volcanoes National Park, US – This park has a social media strategy, which has been in place since 2012. In 2014, it established a multi-disciplinary social media team to ensure up-to-date content and cross-pollination with other social media platforms, which led to a notable jump in Facebook likes from 12,000 in March 2014 to 68,000 in spring 2015.

Destination area. The study defined destination areas as places where WHS and adjoining communities are located. Best

Setting an Appealing Destination Area:

Mesa Verde National Park, US – The Park is developing a *Visitor Distribution and Transportation Master Plan* aimed at reducing overcrowding at key locations during peak periods and improving wayfinding. The plan includes the implementation of a multi-modal transportation system within the Park, which would also open up new areas to visitors.

practices in destination areas involve having a critical mass of amenities, good access and wayfinding to ensure visitors have a memorable experience. Visitors benefit from a broad range of cultural and entertainment opportunities offered within and outside a site. Good access means reliable land, air or other modes of transportation to reach the site and help visitors find their way. Transportation and signage plans are useful tools to enhance access and wayfinding.

SUMMARY OF FINDINGS

The study concluded that World Heritage Sites, as tourism destinations, can be engines of economic development for the regions in which they are located. To this end, the development and management of tourism targeting WHS and their surrounding areas should be based on collaboration and a vision that promotes tourism and economic growth, while, at the same time, preserving the outstanding universal value of the site. Developing the full potential of WHS as tourism destinations requires that visitor preferences are well understood and that the private sector and surrounding communities, including indigenous people, are engaged. Equally important, the study suggests that the World Heritage brand can act as an effective marketing tool and benefit from expanding social media opportunities. The study also acknowledges that WHS may require investment in infrastructure, product development and diversification in order to effectively attract tourism and maximise benefits.

WHAT DOES IT MEAN FOR ISED?

The findings of this study provide valuable insights and information that can be used to reflect upon future tourism policies and programs at all levels of government. This includes exploring approaches and opportunities across Canada on how to use tourism in order to transform WHS into engines of sustainable economic development. The study is a timely contribution to the federal government's expressed intention to help grow local eco-tourism industries and create jobs, promote Canada's National Parks and engage nearby communities, and work with provincial, territorial and municipal counterparts in promoting Canada as a preferred tourism destination and strengthening the Canadian brand abroad.

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Annex: Best Practices Grouped by Category

UNESCO World Heritage Sites: Outstanding Universal Value



PEER PLATFORMS AND THE SHARING ECONOMY

HIGHLIGHTS

- Peer platforms are increasingly popular online tools that are used to facilitate transactions for goods or services. Some platforms are now valued at billions of dollars and are expected to continue growing.
- Peer platforms are often referred to as part of the "sharing economy." Though some platforms do facilitate sharing activities, the largest and most successful platforms are commercial in nature.
- Peer platforms have the potential to increase competition and reduce barriers to entry for providers; however, they also present new and unique challenges for regulators, particularly in the areas of consumer protection, competition, and employment.
- A key challenge is the lack of data capable of capturing the economic impacts of the sharing economy. In response, Statistics Canada has developed a questionnaire to supplement the Labour Force Survey in October 2016.

INTRODUCTION

In recent years, there has been a significant shift in the way many people consume goods and services. Canadians now more frequently turn to online platforms to sell, rent, trade and share an increasing number of goods and services. These platforms create innovative models to match buyers with sellers—usually in an environment that also instills trust among marketplace participants. Peer platforms have disrupted traditional industry models. They have also raised questions about the need to re-examine how (or whether) existing regulatory frameworks should capture consumer-to-consumer transactions. Though embraced by many Canadians, the peer platform economy presents new challenges for regulators in the areas of consumer protection, competition and employment.

This article discusses the meaning of peer platforms, their economic significance and trends, key challenges, regulatory responses, and their relevance to the Department and the Government of Canada.

WHAT IS THE "PEER PLATFORM ECONOMY"?

The "peer platform economy" refers to the use of online platforms that enable consumers to access goods, services, data and talent. In the broadest sense, it generally includes a marketplace that uses the Internet to bring distributed networks of groups or individuals together and allows them to make use of underutilized assets and capacity in goods and services. While different peer platforms are distinct in terms of size, funding models, and missions, they all serve primarily as intermediaries to connect peers online and frequently facilitate offline transactions.

Some of the largest, best-known peer platforms offer ride hailing services (Uber, Lyft), short-term accommodations (Airbnb, VRBO), and skills or labour (AskForTask, TaskRabbit) in exchange for money. These types of platforms are commercial in nature, as they often charge users a fee per transaction; peer providers also typically charge users for their services¹. Other peer platforms are driven by social goals, which means they could be more accurately described as part of the "sharing economy." These platforms may allow individuals to share goods (Freecycle), accommodations (Couchsurfing), or not-for-profit microloans (Kiva) free of charge. The types of goods or services available through the contemporary peer platform economy are virtually endless.

Ratings and Reviews

Peer platforms depend on creating trust relationships between users to facilitate transactions. In many cases, trust is created through online review and rating systems, which allow both peer consumers and peer providers to rate and review one another.

On the one hand, this method of building trust provides both parties with more information about the product or services being provided (and the individuals providing them) than they might otherwise have been able to obtain in a more traditional business to consumer relationship. On the other hand, rating and review systems may be subject to manipulation and are therefore not always trustworthy sources of information. More research is required on the efficacy of review and rating systems.

Key Terminology

Several terms are used interchangeably by media, marketers and individuals to describe the peer platform economy. The most popular—but arguably misleading—term is the "sharing economy." While some peer platforms do facilitate sharing, the largest and most successful platforms facilitate *commercial* transactions. As such, the term "sharing economy" is quickly falling out of favour.

Other popular names include "the gig economy," "the collaborative economy," "the on-demand economy," and "the peer-to-peer economy". While each of these terms captures some facet of this phenomenon, this article will follow the OECD's lead and use the term "peer platform economy."

EMERGING TRENDS

Peer platforms have been growing rapidly due to their popularity and remarkable rates of adoption among users. While certain traditional industries have faced some degree of disruption to their operations, others, such as insurance providers, have recognized the unique needs of peer platform users and are beginning to develop products to respond to those needs.

Peer platforms continue to expand in terms of size and the scope of services they offer. For example, Airbnb is expanding to business travel and Uber is entering into

¹ Some of these peer platforms are now worth billions of dollars. Transportation companies such as Uber and Lyft were valued at \$62.5 billion and \$5.5 billion, respectively, at the beginning of January 2016. Accommodation platform Airbnb was valued at \$25.5 billion in November 2015. (Ronny Kerr, "Uber, Airbnb, and Lyft valuations immune to market deflation" Vator news, January 22 2016.) (<http://vator.tv/news/2016-01-22-uber-airbnb-and-lyft-valuations-immune-to-market-deflation>).

package and food delivery services with UberRush and UberEats. This increases the need to ensure that peer platforms provide for worker and consumer safety, operate within legal frameworks, and maintain a competitive market.

As the peer platform economy evolves so too does technology. Some are anticipating the creation of blockchain-enabled platforms. Blockchain (the technology underlying Bitcoin) is a decentralized public ledger that keeps track of all transactions. It has the potential to allow users (both consumers and providers) to control the platform and cut out intermediaries.²

CHALLENGES

The peer platform economy is a moving target—continuously growing, changing and expanding into new areas. A significant challenge in addressing the peer platform economy is anticipating how and in what sectors it will grow. The explosion of companies like Uber and Airbnb was largely unanticipated, and it is impossible to know whether pet care, clothing rentals, energy sharing, or something else entirely, will be the next big thing.

This diversification of activities taking place in the peer platform economy offers a second challenge. While most platforms operate using a similar model, they offer a wide range of goods and services. Despite the best efforts of some regulators, it is unlikely that a one-size-fits-all approach to peer platform regulation will be successful.

Addressing the peer platform economy is made more difficult by the lack of data on Canadians using peer platforms. In many circumstances, the peer platform economy remains less formalized than the traditional economy. As such, it remains difficult to comprehend its scale and impact.

To respond to this data challenge, Statistics Canada has done preliminary work to determine what aspects of the sharing economy are currently being captured through existing surveys and identify potential data gaps where economic activity may be missed in the measurements. Additionally, Statistics Canada is in the process of developing a short series of questions that will supplement the Labour Force Survey (LFS) and gather information about the sharing economy in Canada. This survey will be put into the field in October 2016 and the results will be released in spring 2017.

Origins of Airbnb

Airbnb started in 2007 when two of its founders, who were having trouble paying their rent, created a simple website to rent out three air mattresses on the living room floor of their San Francisco loft and provide breakfast. They came up with the idea to take advantage of the fact that all of the hotels in the city were fully booked on account of a design conference taking place. Six days after creating their website, they received their first three guests who paid \$80 each for the service. Immediately after they left, the two entrepreneurs realized that there was potential for bigger things with their idea.

Airbnb has recently been valued at \$25.5 billion. Further, the company has had in excess of 60 million guests book accommodations in more than 34,000 cities in over 191 countries. Airbnb receives a booking every two seconds.

² Brhmie Balaram, "Fair Sharing: Reclaiming the power in the sharing economy" Action and Research Centre (Jan 2016).

REGULATORY RESPONSES TO THE PEER PLATFORM ECONOMY

There have been significant and ongoing debates around the world on how to best regulate peer platforms. Regulatory responses to the services offered by peer platforms have varied between jurisdictions and industries, ranging from outright prohibition to more laissez-faire approaches. This is due in part to the diversity in peer platform services and the influence of established industries³. In Canada, for example, some of major cities and jurisdictions have sought injunctions or cease-and-desist orders against the operations of UberX⁴, whereas others have actively engaged with peer platforms to create new regulations.

Recent trends indicate that most governments no longer ask whether or not peer platforms should be allowed to operate; rather, they try to determine the best approach to the regulation of peer platforms that would ensure their operations are in the public interest. Italy, Portland, and Edmonton provide recent examples of approaches taken by jurisdictions to regulate peer platforms and the sharing economy:

ITALY

In March 2016, Italy announced plans to regulate all "sharing economy" platforms under a single act.⁵ The act would define "sharing economy" as an "economic system generated by the optimization and shared allocation of space, time, goods and services through digital platforms," while explicitly excluding platforms that connect professionals. The act would also require that all platforms register with a central agency and collect taxes.⁶

PORTLAND

In 2014, the city of Portland, Oregon enacted regulations for short-term accommodation rentals through platforms, like Airbnb. The regulations continue to allow short-term rentals of rooms or homes, but limit the number of days a property can be rented out each year. The city also partnered with Airbnb to have the company collect and remit municipal and state taxes. Portland initially responded to Uber with an outright ban. In 2015, however, the city announced a 120-day pilot during which taxi and ride hailing services would go unregulated in the city. In exchange, the ride hailing peer platforms were required to share their data with the city to help inform final policy recommendations.⁷

EDMONTON

In January 2016, the city of Edmonton passed bylaws to allow Uber to operate in the city. The bylaws require Uber to pay the city \$70,000 a year to operate and \$0.06 per trip. In addition, drivers are required to have adequate insurance, charge a minimum amount per trip, and are prohibited from picking up passengers at taxi stands. However, Uber has pulled out of

³ Bryant Cannon and Hanna Chung, "A Framework for designing Co-Regulation Models Well-Adapted to Technology-Facilitated Sharing Economies," 31 Santa Clara High Tech L J 23(2015):53.

⁴ The city of Calgary was granted an injunction against Uber operation in November 2015. Toronto unsuccessfully filed for an injunction against Uber operations in June 2015. Subsequently, in February 2016, Toronto councillors voted against seeking an injunction to stop Uber's operations in the city. In April 2016, Ottawa city council voted in favour of legalizing UBER as of September.

⁵ http://www.makingspeechestalk.com/ch/comment_sea/?id_speech=45

⁶ <http://www.itproportal.com/2016/03/11/italy-wants-to-tax-people-in-the-sharing-economy/>

⁷ One Earth, "Local Governments and the Sharing Economy," October 2015, 111 and 212.

the Edmonton market for the time being⁸ on account of issues related to obtaining adequate insurance for its drivers. Edmonton has not yet adopted regulations pertaining to other peer platforms.

ISED AND THE PEER PLATFORM ECONOMY

The peer platform economy has the potential to contribute to the overall economic and social well-being of Canadians. Users and supporters point to its potential to create new and more flexible employment options. For consumers, the peer platform economy may offer improved and customized experiences, while simultaneously decreasing costs. Meanwhile, social innovators are using peer platform technology to tackle some of our most critical social problems, with potential benefits including waste reduction and increased social connectivity.

Given that the creation of a platform involves relatively low overhead costs and few financial risks, innovators and entrepreneurs have more opportunity to enter into, and experiment within, the market. Through peer platforms, entrepreneurs are both disrupting entrenched industries, and creating new markets where none previously existed. The peer platform economy has arguably widened the options for consumers and studies have shown that services like those offered by Airbnb have increased the frequency of travel and the length of time tourists stay in a city.

There is a risk that these platforms could adopt anti-competitive practices, as successful entrants have the potential to quickly dominate a market on account of network effects and the multi-sided market set up by some of these platforms. While it is important to avoid impeding innovation, ISED must continue to develop and implement applicable legislative frameworks that offer adequate protection for Canadians when they engage with the peer platform economy. Key areas of concern include online privacy, security, competitive considerations and the efficacy of online ratings and reviews. Finally, ISED will continue to work with Statistics Canada to develop and refine data to better understand the benefits of the peer platform economic in Canada.

Network Effects

The success of a peer platform depends on its network of users. Peer platforms themselves usually do not sell or own any assets—their function is to connect users. As such, the utility and value of a platform increases as its user base grows. Because of the way platforms are set up, an increase in users does not result in an increase in overhead costs, only profits. New users are therefore more likely to join the largest platform rather than use a new platform or join multiple platforms—resulting in a network effect.

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⁸ Laura Osman, "Uber suspends operations in Edmonton over insurance delay" (CBC: Feb 29, 2016) online: <<http://www.cbc.ca/news/canada/edmonton/uber-suspends-operations-in-edmonton-over-insurance-delay-1.3469425>>.

SECULAR STAGNATION

HIGHLIGHTS

- Secular stagnation refers to slow economic growth in a market economy over a long-term period, attributable to a structural shortfall in aggregate demand.
- The notion that secular stagnation could be the reason for the sluggish growth since the 2008 financial crisis has been supported by prominent economic figures like Larry Summers and Paul Krugman.
- Underlying the deficient demand that characterizes secular stagnation is an imbalance of savings over investment, which is linked to demographics, rising inequality, and a decline in the relative price of investment capital.
- Alternative theories to secular stagnation suggest that the post-financial crisis slowdown in economic growth in advanced economies reflects supply side factors, or that it is due to cyclical factors taking longer to play out because of the severity of the recession.

BACKGROUND

Since the 2008 financial crisis, average annual growth has been slower than its recent historical average: growth in advanced economies averaged around 3.6 per cent between 1985 and 2007 and only 1.4 per cent from 2010 to 2014. Further, since the financial crisis, forecasters have regularly adjusted their growth forecasts for the advanced economies downward. At the same time, the International Monetary Fund and other forecasters have reduced their forecasts for potential growth in most advanced economies in part reflecting continued weak growth.

Some prominent economic figures such as Larry Summers and Paul Krugman argue this sluggish growth in advanced economies, particularly the US, is mainly caused by chronically deficient demand. They also argue this slow growth may be the "new normal" and that the recent economic growth in the US was mainly driven by unsustainable bubbles (financial and housing).

WHAT IS SECULAR STAGNATION?

Secular in this context refers to long-term stagnation due to structural rather than cyclical factors. It is the result of result of chronically deficient demand, which is reflected in a structural excess of desired savings relative to desired investment. In Summers' and Krugman's view, the "natural" rate of interest – the rate at which desired savings and desired investment would be equal at full employment – is negative. With monetary policy effectively constrained by the zero bound for nominal interest rates, it is unable to push interest rates sufficiently negative to restore the balance between desired savings and investment. As a result, the economy is caught in a liquidity trap near the zero bound for interest rates resulting in an extended period of low output growth, despite low interest rates.

WHAT FACTORS COULD DRIVE THE SAVINGS-INVESTMENT IMBALANCE?

A number of factors have been suggested that could underlie desired savings exceeding investment over the medium to longer term, the aging population, rising inequality, and the decline in the relative price of investment goods being the most important among them.

- **Aging populations** give rise to higher overall savings, as older workers increase savings in advance of retirement (the proportion of the population aged 50 to 64 will reach a peak in the next few years in the euro area and the United States; Canada faces similar challenges as, in 2016, the number of seniors aged 65 and older will be greater the number of children under the age of 15). As well, a declining working-age population may also reduce investment demand as fewer capital goods will be needed to equip new workers.
- **Rising inequality** may also lead to increased savings, as income gets shifted toward the wealthy, which have a higher propensity to save relative to lower income segments of the population.
- Summers also notes that the **relative price of investment goods** has been declining during the recent period. This means that a dollar of savings can now purchase more capital than before, contributing to the excess of savings over investment. In addition, the ongoing shift toward services in advanced economies, which are less capital intensive than goods producing industries, also contributes to lower desired investment in physical capital, adding to the excess shortfall of investment relative to savings.

IS SECULAR STAGNATION THE PRINCIPAL CAUSE OF SLOWER GROWTH IN ADVANCED ECONOMIES?

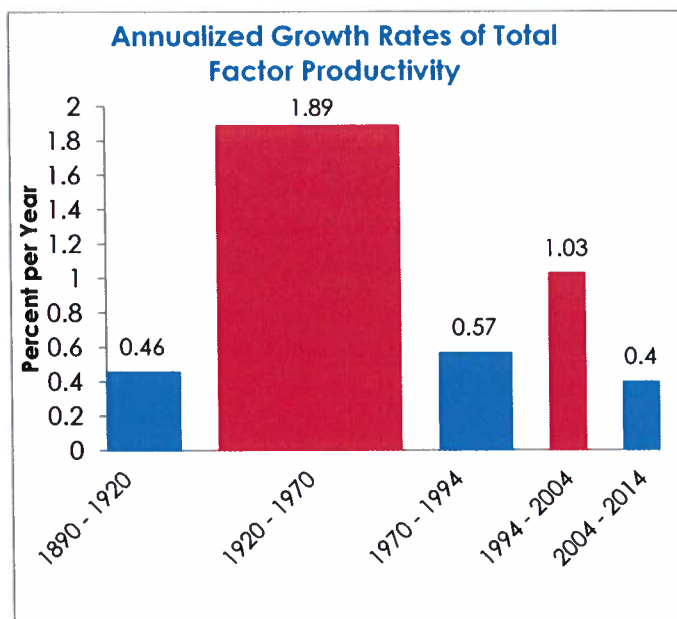
The short answer is that it is difficult to know. While secular stagnation has captured considerable attention as an explanation for the weaker growth in advanced economies in the post-financial crisis period, two alternative explanations have also been put forward.

The first explanation argues that the weaker growth primarily **reflects the protracted playing out of cyclical factors** — such as private and public sector deleveraging — due to the financial origin and severity of the recession. This includes Bank of Governor Stephen Poloz who roundly dismissed the notion that the US was no longer capable of extended periods of strong economic growth due to a chronic shortfall in demand. As evidence, he brings up Alvin Hansen who first coined the expression secular stagnation in 1938 to describe the situation faced by the US during the Great Depression. In particular, Poloz draws attention to the fact that Hansen was altogether incorrect in his prediction for extended periods of sluggish growth and high unemployment as the post-war period ushered in one of the strongest continuous periods of expansion on record. Poloz's response to the arguments of Summers and Krugman can be summarized by the following quote from his December 2015 speech to The Empire Club of Canada: "Ultimately, I see this as a cyclical issue, not a secular one, although the cycle is proving to be longer than usual." The IMF mostly concurs, as it also largely attributes the weakness in investment in advanced economies to cyclical weakness in output growth.

Secular Stagnation and the Great Depression

In a speech before the American Economic Association in 1939, prominent economist and Keynesian Alvin Hansen argued that the US was still struggling to emerge from the Great Depression on account of "secular stagnation" as opposed to cyclical issues.

Specifically, Hansen maintained that the combination of poor demand and existing productive capacity meant that there were few profitable investment opportunities for businesses, resulting in excess savings and idle resources.



The second explanation argues that the slower growth primarily **reflects supply factors** — a return to normal of the pace of productivity growth in the US and other advanced economies. Prominent among the advocates of this premise is Professor Robert J. Gordon, who maintains that 1870 – 1970 constituted a "special century" for the US, characterized by unprecedented gains in productivity and living standards that are unlikely to ever be repeated. He attributes this to five "Great Inventions" of the second industrial revolution that permanently transformed working and living conditions in the US and essentially laid the foundations for the modern world: electricity, urban sanitation, chemicals and pharmaceuticals and the internal combustion engine.

Gordon claims that the current industrial revolution (IT Revolution) does not generate the same levels of growth as its predecessor because the productivity impacts of these innovations, which were largely confined to the areas of entertainment, communication, and information technology, simply do not measure up to any of the "Great

Inventions" that powered economic growth. For example, even when accounting for the dramatic benefits provided by the internet and personal computers, contemporary workplaces are, for all intents and purposes, not radically different

than they were 15 years ago. Based on this premise, Gordon argues that the low levels of productivity growth since the 1970s, with the exception of a temporary blip provided by the dot-com bubble, should be regarded as the new normal. These ideas contrast with the views of prominent "techno-optimists" such as Erik Brynjolfsson and Andrew McAfee who argue that the US is currently at an inflection point between slow technological change and a future of rapid advances attributable to some kind of new invention that will serve as a catalyst for spectacular productivity growth.

The demand-side factors identified in the secular stagnation story are closely linked to and difficult to disentangle from the supply-side factors. For example, a slowdown in growth due to demographic effects and low productivity growth would lead to lower trend growth in desired investment. Similarly, cyclical weakness in economic activity can lower productivity and investment demand making it difficult to identify causality.

POLICY IMPLICATIONS

Since Summers and Krugman see the problem as fundamentally a weakness of demand, they argue that a substantial boost to aggregate demand is required. Further, they argue, given the inability of monetary policy to push interest rates sufficiently negative, that fiscal policy should be geared to giving a substantial boost to demand and closing the desired savings and investment gap. Their recommendation has a supply-side element to it, as well, in that they recommend that the US government take advantage of low interest rates to invest in new infrastructure that will also contribute to improving productivity growth in the future.

In contrast, those that attribute the weakness in output growth to supply-side factors favour policies that would improve productivity to increase potential output. They would emphasise investment in innovation, education and labour force skills, which would increase productivity and the return to capital. (These would also have a demand impact.) Both Summers and Krugman would also support these policies as being good for the economy in the medium- to longer-term, but believe that the lags in their effects would not help in the short-term. The IMF suggests increasing public infrastructure investment to spur demand in the short term, raise supply in the medium term, and thus "crowd in" private investment in countries and other structural reforms that could encourage private investment.

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A PORTRAIT OF CANADIAN GOODS TRADING FIRMS PART TWO: FIRM, COUNTRY AND PRODUCT DYNAMICS*

HIGHLIGHTS

- Availability of new firm level data allows for a better understanding of the characteristics and dynamics of Canadian exporters.
- We find that:
 - Fifty percent of export value is concentrated in five percent of firms exporting in ten or more countries.
 - Only half of new exporters continue to export the following year.
 - Successful exporters modify periodically their product mix, and
 - The likelihood of continuing exporting over the period is lower for firms targeting only non-US markets.

INTRODUCTION

Until recently, analysis of the behaviour of Canadian exporters could only happen at the industry level. The availability of micro data has allowed the focus of research in international trade to shift from industries to firms and products.

This article is the second in a series looking at Innovation, Science and Economic Development Canada research examining characteristics of Canadian exporting firms using firm level data.

The first *Insights* article (IC Insights 2015 Volume 1) found that exporting and importing is rare. In 2008, of the 1.2 million firms in Canada, only 48,699 exported merchandise goods. This article presents key results on Canadian exporting firms' dynamics: which firms continue to export, which ones exit export markets, and best practices of those successfully exporting over several years.

* This article summarizes results presented in a draft paper (Acharya).

EXPORT VALUE IS DOMINATED BY FIRMS THAT EXPORT MULTIPLE PRODUCTS AND TO MULTIPLE COUNTRIES

Chart 1 shows that most Canadian exporting firms (71%) export in only one country. However, export value is dominated by firms that export to multiple countries. While only 5% of exporters went to 10 or more countries they contributed almost 50% of the value of exports. In the same manner, a small percentage of firms (12%) exported 10 or more products, but accounted for 69% of export value (Chart 2).

Chart 1: Percentage of Exporting Firms, 2002-2008
By Number of Destination Countries

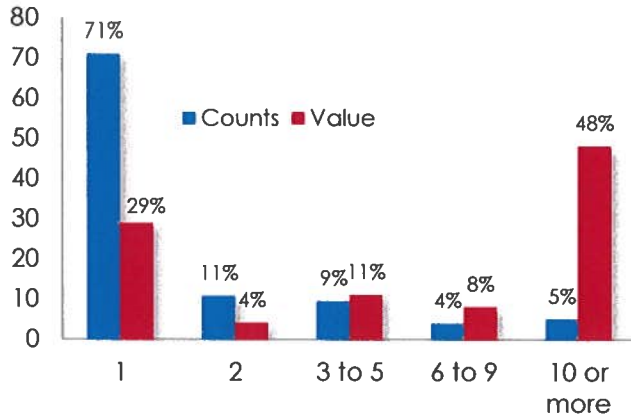
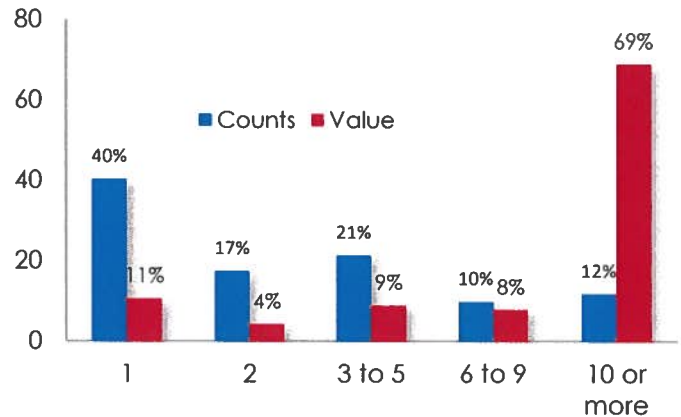


Chart 2: Percentage of Exporting Firms, 2002-2008
By Number of Products



CONTINUING FIRMS CONTRIBUTED MOST OF THE EXPORT VALUE

The sustainability of exporters in foreign markets and the entrance of new exporters are important aspects of export sector dynamics. The microdata makes it possible to assess the contribution of firms entering export markets ("entrants") compared to those exporting for the whole period ("continuers") and those that stopped exporting ("exitors") between 2002 and 2008.

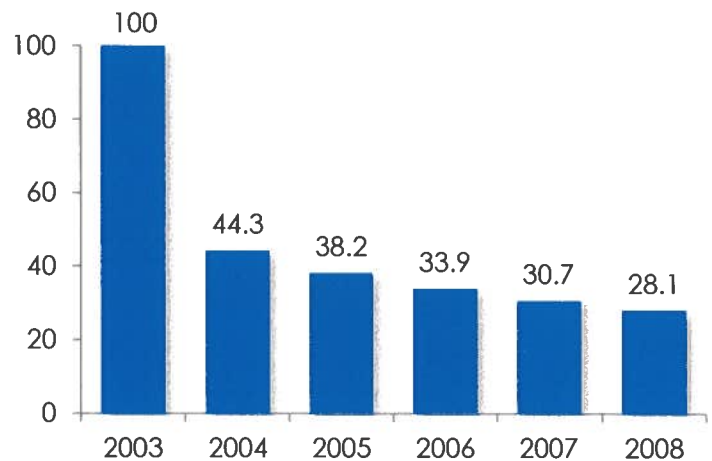
We find that, among all exporters in 2002, 52% exited exporting by the end of the period studied in 2008. In general, the exitors were small exporters and contributed only 10% of exports (\$352M in value). In 2008, the continuous firms, mostly large firms, represented almost half of the firm counts and 92% of export value (\$50,346M in value).

HALF OF NEW EXPORTERS DO NOT EXPORT THE SECOND YEAR

Of the new exporters that entered in 2003, only about half of them were still exporting in 2004, and about a quarter were still exporting in 2008 (Chart 3). The survival rates varied slightly by markets: it was the lowest for those that started in the US only, followed by those that started in non-US countries only.

These survivors grew larger slowly over time. Though the new export survivors increased their size of exports, they were still relatively small. For example, the batch of 2003 new exporters increased their share of exports from 2.5% in 2003 to 11.4% in 2008 (Chart 4).

Chart 3: Survival Rates of All New Exporters (%)



New exporters that exported only to the US were the least productive among all other new exporters: they were 12% less productive than other new exporters. New exporters to non-US markets only were larger in employment, smaller in sales and had low capital labor ratio (compared to those that started exporting only to the US).

MANY SUCCESSFUL EXPORTERS ADD OR DROP PRODUCTS

The firm-level data also reveal that product churning – the adding or dropping of products – is an important element of exporting dynamics. Among the continuers, 91% altered their product mix – 12% by dropping, 11% by adding and 67% by doing both (Chart 5). The role of product adding/dropping firms contributed an even larger share of export value (93%) – 6% by dropping, 9% by adding and 78% by doing both.

Adding products appears to be related to firm characteristics. The results suggest that firms that added products on net had faster productivity, were bigger, and had higher growth in export destination countries and import source countries compared to those that did not add products on net.

CANADIAN FIRMS AND MARKET DESTINATION

Finally, we also looked at export destinations. In particular, given Canada's proximity to and integration with the US, we wanted to particularly examine its role in Canadian firms' exports.

In 2008, 78% of Canadian exporters had the US as a market destination, either as the sole market or in combination with other countries. Twenty percent went to both the US and non-US markets, contributing 66% of exports. Firms exporting outside of the US market were the smallest segment of exporting firms (at 22%) and contributed only 6% of export value.

Over time, increasingly smaller firms entered both the US and other markets. The likelihood of firm survival was the lowest for those that were exporting only to non-US markets.

Overall, the firms that expanded from one market (only US or only non-US market) to both markets were larger and more productive, and also had higher export value, more exported products and low import-to-export ratio relative to firms that continued in the same single market. In the same manner, those that exited from one market and retrenched into a single market were smaller, had fewer exports, and had fewer exported goods.

Chart 4: Export Survivors' Average Value as Share of All Exporters (%)

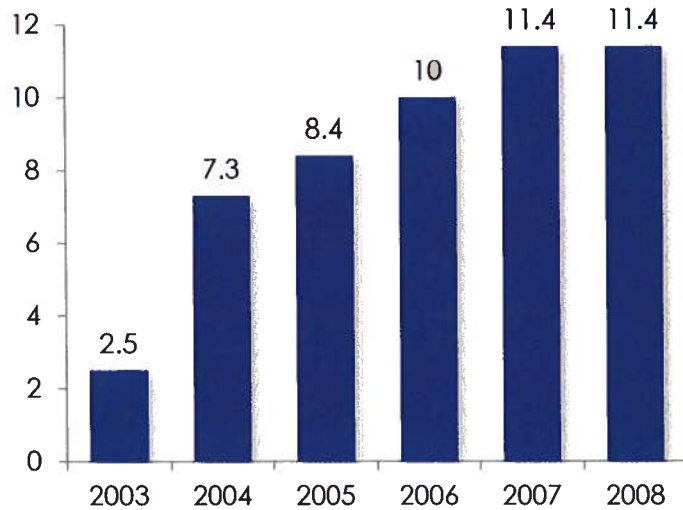
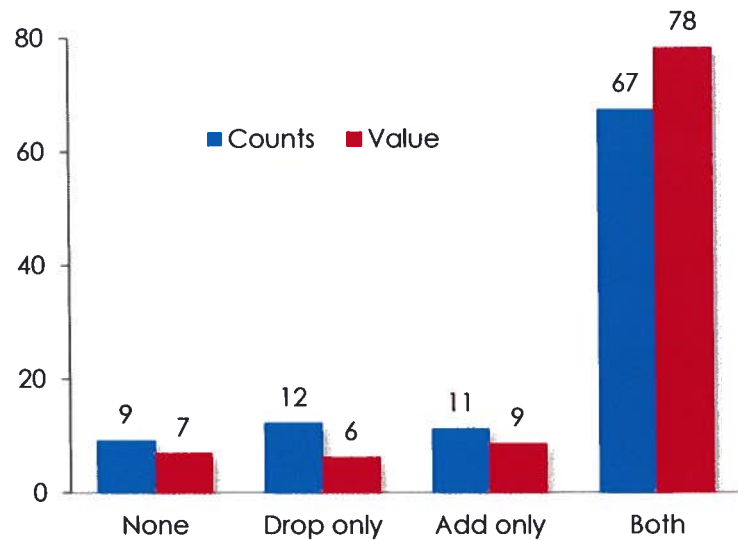


Chart 5: Product Churning by Continuers (%)



CONCLUSION

Better understanding Canadian export dynamics is important to help firms grow and diversify their markets. Analysis at the firm level allowed us to assess the importance of diversifying firm product portfolio over time to continue successful exporting. It also confirmed the importance of the US market for Canadian exporting firms and the difficulties of successfully exporting exclusively outside of the US market. More research would be needed to better understand barriers to export to non-US markets.

REFERENCES

Acharya, R., 2016. *Canadian Exporters: Firm, Country and Product Dynamics* (draft paper)

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INSIGHTS DATA TABLE

Monthly Economic Indicators							
	Reference period	Month-over-month growth (at monthly rates)			Q-o-q growth	Year-over-year growth	
		Latest month	Prev. month	2 Months before	2016Q1	2015	2014
Mfg sales (current \$)	Apr '16	1.0	-0.9	-4.0	-0.2	-1.5	5.3
Mfg sales (constant \$)	Apr '16	1.4	0.1	-2.7	1.4	-0.9	3.0
Retail trade (current \$)	Apr '16	0.9	-0.8	0.6	1.3	1.7	4.6
Retail trade (chained \$)	Apr '16	0.1	-1.1	1.4	1.7	1.2	3.5
Real GDP	Mar '16	-0.2	-0.1	0.5	0.7	0.9	2.5
-Services	Mar '16	0.0	0.0	0.4	0.6	2.0	2.4
-Manufacturing	Mar '16	-0.2	-0.9	0.3	1.2	0.3	2.8
Exports (bop) (current \$)	Apr '16	1.5	-4.1	-6.8	-1.2	-0.7	10.1
Imports (bop) (current \$)	Apr '16	0.9	-2.5	-2.6	-0.2	4.5	7.6
All-items CPI	May '16	0.4	0.3	0.6	0.3	1.1	1.9
Core CPI	May '16	0.3	0.2	0.7	0.5	2.2	1.8
LFS employment (Δ in 000s)	May '16	13.8	-2.1	40.6	32.6	155.4	120.1
Unemployment rate (%)	May '16	6.9	7.1	7.1	7.2	6.9	6.9
US employment (Δ in 000s) (CPS)	May '16	26.0	-316.0	246.0	1,391.0	2,490.0	2,755.0
US unemployment rate (%)	May '16	4.7	5.0	5.0	4.9	5.3	6.2
Financial Indicators							
	Reference period	Monthly average				Annual average	
		Current value	Latest full month	Prev. month	2 Months before	2015	2014
Bank rate (%)	Jun 23' 16	0.75	0.75	0.75	0.75	0.88	1.25
Exchange rate	Jun 23 '16	127.5	129.5	128.1	132.3	127.9	110.5
Quarterly Economic Indicators							
	Reference period	Quarter-over-quarter growth (at annual rates)			Year-over-year growth		
		Latest quarter	Prev. quarter	2 Quarters before	2015	2014	
Real GDP	2016Q1	2.4	0.5	2.2	1.1	2.5	
Final consumption expenditure	2016Q1	2.1	1.4	1.8	1.8	1.9	
Gross fixed capital formation	2016Q1	-1.7	-6.0	-4.9	-4.4	0.7	
-Machinery & equipment	2016Q1	-2.7	-8.1	-6.7	-2.4	1.0	
Exports	2016Q1	6.9	-1.5	9.0	3.4	5.3	
Imports	2016Q1	1.3	-7.0	-2.8	0.3	1.8	
Final domestic demand	2016Q1	1.3	-0.3	0.3	0.3	1.6	
Labour productivity	2016Q1	1.5	-0.1	0.6	-0.1	-0.4	
Unit labour cost	2016Q1	-1.1	3.5	-1.5	0.2	1.9	
Industrial capacity utilization (%)	2016Q1	81.4	80.9	81.2	80.9	82.3	
Real US GDP	2016Q1	0.8	1.4	2.0	2.4	2.4	