

# Export Markets Entry and Exit and Foreign Ownership

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## What Is the Issue?

The policy objectives of sub-theme Trade and Competitiveness focus on providing “support to Ontarios agribusinesses to remain competitive in domestic and global markets in response to change and challenge in international trade relations and international markets [and] on assessing the readiness of small and medium food processing companies to expand exports”. Entering a new export market is a costly decision for firms (i.e., “transportation costs, distribution or marketing costs, personnel with the skill to manage foreign networks”) and uncertainty about how consumers and other businesses will react to their product(s) is one of the main barriers to entry. As a result, new exporters are smaller and have lower survival rates than established exporters. Over time, however, surviving firms learn about their products’ demand and expand or contract depending on whether they experience more or less demand than initially expected. In a recent study of the relationship between food processing exporters and productivity, we find food processors are on average more productive than non-exporters, and they increase their productivity after several years of exporting. Differences in supply-side factors such as productivity play an important role in determining export market success. Meanwhile, export experience and demand learning are the main drivers of export market survival and growth. In this note, we review the literature on the effect of foreign ownership on export market participation. The relationship between the firm’s ownership status - i.e., whether it is domestically or foreign-owned - and its export participation and performance has been discussed at length, often as part of the general debate on the control of foreign direct investment in host countries.

A more globally competitive food processing industry would help sustain and create more employment. The Canadian food processing sector is the second largest manufacturing industry in terms of revenue and the largest in terms of employment. Ontario has Canada’s largest food processing sector with a revenue of \$42 billion, exports of 9.6 billion, employs more than 130,000 Ontarian, and accounts for 14% of Ontario’s manufacturing revenues (Food and Beverage Ontario,

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2018, p. 1). The province's agri-food sector sustains about 1 in every 9 jobs in Ontario. A vibrant food processing industry not only increases employment within manufacturing but also throughout the whole supply chain. For example, there is a symbiotic relationship between food processors and Ontario farmers. In particular, the food processing industry is the largest customer for Ontario farmers with over 65% of the product purchased from them. Thus, increased competitiveness for Ontario's food processors may spur an increase in productivity and employment within the farming sector. In turn, rural communities may also benefit through higher economic activity in surrounding areas. Finally, a greater understanding of the factors that affect firm survival may also affect consumers as greater competition leads to lower prices and more varieties available.

## What Did the Study Find?

The export market survival literature suggests that firm-level factors such as foreign-ownership, firm size, number of products, and core vs. peripheral markets may affect the survival rates in the export market. Foreign-owned firms, for example, have been found to have higher survival rates than domestic-owned firms. In Georgia, for example, [Martuscelli and Varela \(2015\)](#) find that the survival probability of products exported by foreign-owned firms is 2.8% higher than for products exported by domestic-owned firms. In Germany, foreign-owned firms export 39% more goods to 31% more countries ([Raff and Wagner, 2014](#)). Foreign firms may have more established links with foreign partners and better knowledge of foreign markets that can help in identifying successful export products. Foreign-owned firms can use the international networks and trade contacts of their parent companies and should be able to connect with customers in more countries and for more goods than domestic-owned firms ([Raff and Wagner, 2014](#)).

The ability for firms to grow and succeed in export markets is very important for the Canadian economy as Canada is a geographically dispersed country with a small market size that depends on exports for growth. Canada is also the only G-7 country with free trade access to the United States and the Americas, Europe and Asia Pacific (Global Affairs Canada, 2015). Foreign-owned firms account for 48% of merchandise exports (CANSIM Tables 376-0153, 376-0155) and are responsible for 14.2% of Canada's GDP ([Statistics-Canada, 2018](#)). Figure 1 shows that the percentage of foreign-owned assets is about 20 percent, while this figure is approximately 50 percent for manufacturing. Foreign control measured as the nominal value of foreign-owned assets increased in Canada between 2007 and 2016, reaching almost 2 trillion dollars in 2016 ([Gill, 2018](#)). The composition of the country of control changed with a decline in the share of corporations controlled by the United States and the United Kingdom. In contrast, the share of assets controlled by Japan, China, South Korea, and India has increased ([Gill, 2018](#)).

## How Was the Study Conducted?

We conducted a literature review.

# References

Gill, P.K. 2018. “New findings on who controls Canadian corporations and how this has changed over the last 10 years.”

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Raff, H., and J. Wagner. 2014. “Foreign ownership and the extensive margins of exports: Evidence for manufacturing enterprises in Germany.” *The World Economy* 37:579–591.

Statistics-Canada. 2018. “Activities of Foreign Majority-Owned Affiliates in Canada.”

# Appendix

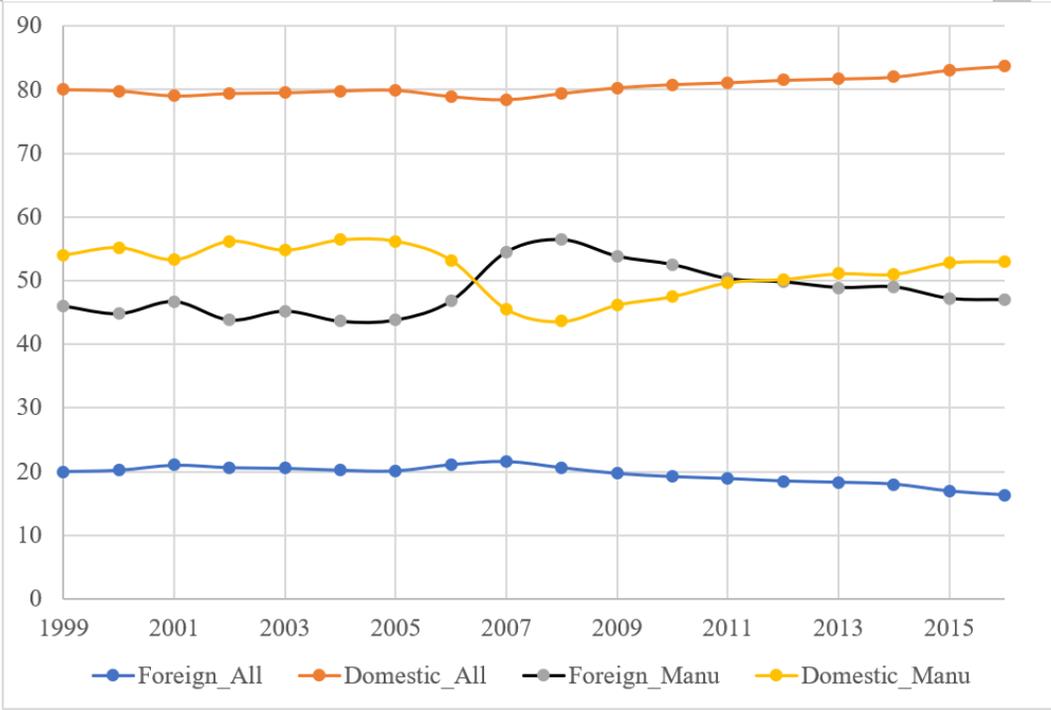


Figure 1: Percentage of total assets Foreign-controlled enterprises in Canada for all industries and manufacturing  
 Source: Statistics Canada <https://www150.statcan.gc.ca/t1/tb11/en/cv.action?pid=3310003301#timeframe>