

# Intelligence MEMOS



From: Daniel Schwanen

To: Canadians Concerned About Small Business Growth Amidst Reconfiguration of Supply Chains

Date: December 22, 2023

Re: **PREPARING ONTARIO SME'S FOR SUPPLY CHAINS OF THE FUTURE – GETTING THE BIG PICTURE RIGHT**

While supply chain challenges of the pandemic era and its immediate aftermath seem to have [abated at the global level](#), a [recent survey](#) shows that forty percent of Ontario's private businesses still expect worsening supply chain challenges. This compares with fewer than thirty percent of businesses in Canada as a whole expecting such worsening. This discrepancy in vulnerability between Ontario and the rest of the country cuts across almost all goods-producing or selling sectors, including construction, and is almost entirely accounted for by businesses with fewer than 100 employees.

Businesses and governments certainly have awakened to the heightened risk of crises stemming from health, geo-political, and/or environmental events. In general, we live in a world where “know your supplier” has become at least as important a mantra as “know your customer”, and where reputational risk stemming from suppliers' lack of enforcement of environmental or labour standards can run rampant.

In this world, there are both threats and opportunities for Ontario's small- and medium-sized businesses (SMEs). These stem from Ontario's unique geographical position as a Canadian internal and external trade hub. Reliable and cost-efficient supplies go hand-in-hand with maintaining an indispensable presence within global, national and regional supply chains, which in turn is vital to the existence of good jobs and entrepreneurial opportunities. Indeed, it is key to our ability to reverse our vexing and costly relative [difficulty to grow SMEs](#) into larger and globally competitive businesses.

While Canada as a whole is behind other jurisdictions such as the United States, the European Union, the United Kingdom and Australia in developing and implementing a national supply chain strategy, it has recently stepped up efforts in that direction, notably with the [launch this month of a National Supply Chain Office](#). The federal government can and should deal with “big picture” issues, such as port and maritime infrastructure, cross-country rail and transport regulations, modern communications and payments infrastructure, stockpiles of critical goods, continued access to both international supplies and markets through trade policies and diplomacy, and immigration that address labour shortages. It should also try to ensure that Canada at least does not fall behind in critical capabilities required to maintain our energy supplies and the security of Canada and its allies, without which the resiliency of supply chains on which Canadians depend is in doubt.

There is also much that a large province such as Ontario can specifically do to foster the ability of SMEs operating in their jurisdiction to access and benefit from participating in cost-competitive and resilient supply chains. Such tools and policies include more innovative public sector procurement – even beyond the relevant mandate of [Supply Ontario](#) – support for capital investments leading to higher productivity, innovative facilities to ensure business continuity in the event of disruption, regulatory nimbleness, a more generally supportive environment for commercialization, and bringing large and small companies to work together around a skills and digitalization agenda.

It is also important for governments to avoid obvious mistakes. The lure of promoting “near-shoring” – attracting production closer to home in the hope of reaping economic and political benefits – is understandable. But its net economic benefits [are doubtful for the world's larger economies](#), let alone for one the size of Ontario. And while there is growing evidence that it is taking place globally, its beneficiaries may be competitors, [notably Mexico](#), which is just as close as Ontario to the large US market.

At the limit, policies that seek not only to near-shore, but to “re-shore” production, diverting trade away from low-cost suppliers without genuinely resulting in more secure, safer or higher-standard supplies, would simply result in higher costs for consumers and taxpayers. Yet, politically, we are now well-beyond a world where it was seen as optimal for companies alone to determine the shape of globalized production patterns.

However, as mentioned, governments can intelligently respond to the disruptive dynamics that are leading to a reconfiguration of supply chains globally. In the next *Intelligence Memo*, I will elaborate on the use of some of the tools and policies mentioned above.

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