

Next Steps for Canada's Trade Relationship with the Asia-Pacific

While the United States will continue to be Canada's largest trading partner, diversification to higher-growth markets, notably in Asia, is increasingly important to Canada's prosperity. An expanding consumer base and rapid urbanization continue to drive market opportunities in China, India, and Southeast Asia. Japan remains the world's third largest economy and, along with South Korea, a technology powerhouse with supply chain links throughout the region. Canada's strengths in industries like agri-food, energy, environmental technologies, financial services and infrastructure are closely aligned with the needs of the region. To take advantage of such opportunities, Canadian companies need public policies that enable them and help them compete.

Where we stand

Canada is doing more and more business with Asia. According to the Conference Board of Canada, Asia makes up 15 percent of Canada's international trade, up from 10 percent in 2003. But dig deeper and the numbers are less rosy. Imports have increased much faster than exports and Canada's market share in the region continues to fall. Canada's share of total foreign investment in Asia has also dropped compared to G7 peers, suggesting lower levels of supply chain integration and sales by overseas subsidiaries.

Increasingly, federal policymakers are trying to reverse this trend. After years of watching from the sidelines, Canada joined the 12-country Trans-Pacific Partnership (TPP) negotiations and recently concluded a trade agreement with South Korea. Canada landed the first offshore trading hub for Chinese currency in the Americas. The number of trade offices in China and India is growing and, part of Ottawa's drive to double the number of Canadian small and medium-sized enterprises (SMEs) in emerging markets by 2018.

The way forward

These are all steps in the right direction. But Asia has many suitors and Canada will have to work even harder and smarter to remove trade barriers, create a level playing field and help companies navigate new surroundings.

There is a need for more free trade agreements (FTAs) and foreign investment protection agreements (FIPAs). If TPP can be concluded, it would open up brand new market access in Vietnam and Malaysia and lower barriers for a wide range of existing exports to Japan. Depending on TPP's outcomes, Canada may secure additional benefits from Japan through a separate bilateral Economic Partnership Agreement (EPA). Negotiations with India on a Comprehensive Economic Partnership Agreement (CEPA) are back on track, following the recent state visit to Canada by Prime Minister Narendra Modi. Canada has started to pursue agreements with the members of the Association of Southeast Asian Nations (ASEAN).

Progress with China, however, has stalled. It may be Canada's second largest export market, but the two countries have yet to formally explore, let alone start negotiations on an FTA. On Prime Minister Stephen Harper's 2014 visit to China, the two countries announced a 'track-two' dialogue that would evaluate different arrangements to enhance bilateral trade, but it has been subject to delays. Meanwhile, Canada's competitors are not waiting. Australia's new FTA with China is already putting Canadian businesses and farmers at a competitive disadvantage.

Canada will need to do more than just sign trade agreements to succeed in Asia. Trading partners must provide real access to their domestic markets, including through the elimination of sector-specific non-tariff barriers and unfair financial or regulatory advantages. Canada should monitor these issues closely and, when necessary, use appropriate mechanisms to enforce agreements, including trade remedies and dispute settlement procedures. These essential functions require a well-resourced, professional border service and trade policy team that is in frequent contact with businesses on the ground.

The government needs to make sure that SMEs are aware of how they can take advantage of the economic opportunities that current and future agreements provide. Many SMEs do not have the resources to promote their products and services in markets where they have to deal with very different laws and customs.

Government-to-government relationships are a key feature of doing business in Asia. High-level political engagement and exchanges, regulatory cooperation, foreign aid and development finance are important tools to boost private sector collaboration. The Canada-China Joint Agriculture Committee and Financial Sector Policy Dialogues with China and India, for instance, have been valuable channels to build trust and address market access issues for Canadian companies.

Canada's economic agenda in Asia is gathering steam. Working with relevant companies and industry groups to develop and execute a clear vision for the next phase will make sure that Canada can compete and win in the world's most dynamic region.

Recommendations

That the federal government:

1. Take a leading role in concluding and implementing an ambitious TPP that includes:
 - a. Comprehensive market access for goods and services, as well as realistic rules of origin.
 - b. High-standard rules to facilitate cross-border data flows and the movement of business people, improve regulatory transparency and strengthen investment and intellectual property protection.
2. Expand bilateral trade and investment agreements in Asia by:
 - a. Concluding joint feasibility studies on the costs, benefits and potential structure of FTAs with China and the Philippines.
 - b. Concluding and implementing the Canada-India CEPA and FIPA.
 - c. Negotiating FIPAs with Taiwan and Macau.
3. Improve the local business climate for Canadian companies by:
 - a. Ensuring commercially meaningful regulatory outcomes from bilateral sector committees and expanding them to include priority economies in ASEAN.
 - b. Targeting development aid to help local governments enact and enforce best practice laws and regulations in areas such as taxation, financial supervision, workplace health and safety, environment and consumer protection.
4. Continue to improve the effectiveness of Canada's trade promotion strategies and programs by:
 - a. Streamlining access to federal and provincial/territorial trade promotion services.
 - b. Creating a forward planning committee to coordinate with provincial/territorial governments on delegations and strategic foreign investment and export opportunities.
 - c. Ensuring that federal trade officials have adequate resources to negotiate, monitor and enforce the results of trade agreements, as well as provide timely, effective service to clients at home and abroad.
5. Facilitate Canadian participation in regional infrastructure projects by:
 - a. Working with local governments to develop private-public-partnership models.
 - b. Encouraging collaboration between Export Development Canada and regional financial institutions such as the Asian Infrastructure Investment Bank and Asian Development Bank.