

## **Executive Summary of the Joint Feasibility Study for an ASEAN-Canada Free Trade Agreement**

ASEAN and Canada have a long history of cooperation. The bilateral relationship has grown steadily since 1977, when Canada became an ASEAN Dialogue Partner. As a group, ASEAN is the sixth largest economy in the world and one of the largest drivers of growth in the Asia-Pacific region. Canada is the 10<sup>th</sup> largest economy in the world, a strong and stable economic partner, and a leader in global trade, services, investment and research and development. Both ASEAN and Canada have identified economic cooperation and trade and investment as necessary elements in further growing and developing their respective economies, as well as the ASEAN-Canada bilateral relationship.

In August 2016, at the ASEAN Economic Ministers (AEM)-Canada Consultations (Vientiane, Lao PDR), ASEAN and Canada's economic ministers agreed to co-develop a feasibility study to explore the potential for an ASEAN-Canada Free Trade Agreement (FTA).

The in-depth study was conducted jointly by the Global Affairs Canada Office of the Chief Economist and the Economic Research Institute for ASEAN and East Asia (ERIA) (on behalf of ASEAN), and provides the following:

1. An overview of the ASEAN and Canadian economies, including key bilateral trends in terms of trade in goods, trade in services and two-way investment;
2. An outline of Canada's and ASEAN's respective approaches to FTA negotiations; and,
3. An evaluation of the potential economic gains for both Parties of an ASEAN-Canada FTA.

Economic modelling was conducted in parallel by Canada and ASEAN, with Canada focusing on the impact of liberalizing trade in goods, services and investment in the context of a potential FTA, and ASEAN on the impact of liberalizing trade in goods, reductions in non-tariff measures (NTMs) and improved trade facilitation.

The study highlights the benefits that would be gained through deeper integration in an age of global commerce characterized by sophisticated global value chains across multiple countries. Further, it demonstrates that a comprehensive agreement, one which moves beyond simple tariff elimination and includes services and investment liberalization, a reduction in NTMs, and improvements to trade facilitation, is in the best interest of both Canada and ASEAN member states.

### *Bilateral Trends in Trade*

The ASEAN-Canada economic relationship has grown significantly, especially in the area of trade in goods and services. Canada is ASEAN's 15<sup>th</sup> largest trading partner, while ASEAN collectively represents Canada's sixth largest trading partner. Total Canada-ASEAN bilateral trade in 2016 amounted to US\$20.2 billion. Trade between ASEAN and Canada has grown at an annual average rate of 5.7 percent since 2004. In 2016, ASEAN's merchandise

exports to Canada reached US\$12 billion while Canada's merchandise exports reached US\$4.3 billion.

In 2016, Canadian services exports to ASEAN totalled US\$1.5 billion, and ASEAN services exports to Canada amounted to US\$2.3 billion<sup>1</sup>. In 2016, the value of the WTO<sup>2</sup> trade complementarity index between Canada and ASEAN equalled 59.9, which indicates a relatively high degree of trade complementarity between Canada and ASEAN.

Canada's foreign direct investment in ASEAN reached over US\$8.9 billion in 2016. Key sectors where Canadian companies are investing in ASEAN include financial and insurance services, manufacturing, infrastructure, information and communication technologies, aerospace and defense, oil and gas, sustainable technologies, agriculture and agri-food, and education. ASEAN member states' foreign direct investment in Canada is more modest, at US\$249.2 million<sup>3</sup>.

### *Respective Approaches to Free Trade Agreements*

The study provides an overview of the trade agreements concluded by both Parties and describes ASEAN's and Canada's typical approaches to FTAs across various areas. ASEAN as a group has six FTAs with external partners, five of which are currently in force.<sup>4</sup> These FTAs reflect varying levels of comprehensiveness and liberalization. Canada has a total of twelve FTAs in force with countries at varying stages of economic development, and favours a comprehensive approach when negotiating its FTAs with trading partners.

Table 1 below identifies areas that ASEAN and Canada have included in their past FTAs, illustrating the differences in potential FTA approaches. Notwithstanding the information shown in the table below, the study notes that 4 out of 10 ASEAN member states have also recently covered a number of additional issue areas as part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

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<sup>1</sup>Statistics Canada: <http://www.international.gc.ca/economist-economiste/statistics-statistiques/bip-bdp.aspx?lang=eng>.

<sup>2</sup> The trade complementarity index shows how well two countries'/regions' trade structures match. The index is zero when no trade occurs between the two countries and 100 when the distribution of a country's exports exactly matches that of its trading partner's imports.

<sup>3</sup> Table 36-10-0008-01 International investment position, Canadian direct investment abroad and foreign direct investment in Canada, by country, annual (x 1,000,000).

<sup>4</sup> ASEAN – Hong Kong China FTA was signed on 12 November 2017. The agreement is not yet in effect and not yet notified to the WTO by the time when this report was prepared.

**Table 1: Negotiated Areas Included in Previous Agreements**

	ASEAN	Canada
<b>Trade in Goods</b>		
National Treatment and Market Access for Goods	✓	✓
Rules of Origin and Origin Procedures	✓	✓
Customs and Trade Facilitation	✓	✓
Technical Barriers to Trade	✓	✓
Sanitary and Phytosanitary Measures	✓	✓
<b>Trade in Services</b>		
Cross-Border Trade in Services (CBTS)	✓	✓
Domestic Regulation and Transparency	✓	✓
Movement of Natural Persons/ Temporary Entry for Business Persons	✓	✓
Financial Services	✓	✓
Telecommunications	✓	✓
<b>Investment</b>	✓	✓
<b>Other Areas Relevant to Trade and Investment</b>		
Competition Policy	✓	✓
Government Procurement		✓
Intellectual Property	✓	✓
Labour		✓
Environment		✓
Electronic Commerce	✓	✓
Monopolies and State-Owned-Enterprises		✓
Small and Medium Sized Enterprises	✓	✓
Gender		✓
Transparency and Anti-Corruption		✓
Economic and Technical Cooperation	✓	
Dispute Settlement	✓	✓

*Modelling of an ASEAN-Canada Free Trade Agreement*

Economic modelling performed by both ASEAN and Canada, based on varying scopes of liberalization, provides a comprehensive analysis of the economic benefits of a potential ASEAN-Canada FTA.

For the purpose of the modelling, both ASEAN and Canada followed the same assumptions with respect to tariff elimination: complete elimination of all tariffs in both ASEAN and Canada for all agricultural and non-agricultural products, with no exception made for sensitive products.

Canada, in-line with its typical FTA economic modelling approach, also modelled the effect of potential services and investment liberalization between Canada and ASEAN. ASEAN, did not model services or investment liberalization, but chose to model the impact of a reduction of NTMs and improvements to trade facilitation on the trading relationship.

Both parties studied the dynamic impacts of the agreement over medium - and long - term horizons. It is worth noting that the results of simulations are primarily in terms of rate of changes rather than absolute changes.

### *Impacts of a Potential ASEAN-Canada FTA*

Both sets of modelling demonstrated that a comprehensive FTA would deliver significant trade and economic benefits for all ASEAN member states and Canada, and promote closer economic relations over the long term.

The analysis conducted by ASEAN shows that the impact of an agreement that includes *goods liberalization, a reduction of NTMs and improvements to trade facilitation* would increase ASEAN's GDP by US\$39.4 billion (1.6 percent) and Canada's GDP by US\$5.1 billion (0.3 percent). Likewise, an agreement would increase ASEAN's exports to Canada by US\$3.36 billion (18.7 percent) and Canadian exports to ASEAN by US\$3.18 billion (26.5 percent)<sup>5</sup>.

The analysis conducted by Canada shows that the impact of an agreement that includes *goods, services and investment liberalization*, would increase ASEAN's GDP by US\$6.01 billion (0.12 percent) and Canada's GDP by US\$2.54 billion (0.10 percent). Furthermore, a potential agreement would increase ASEAN exports to Canada by US\$4.81 billion (15.5 percent) and Canadian exports to ASEAN by US\$2.67 billion (13.3 percent).

Table 2 provides the breakdown of both ASEAN member states' and Canada's GDP gains from their respective aggregate modelling scenarios while Tables 3 and 4 provide the anticipated sectoral changes in bilateral trade between Canada and ASEAN member states.

**Table 2: GDP Gains as a Result of an ASEAN-Canada FTA**

	Goods, NTMs and Trade Facilitation		Goods, Services and Investment	
	US\$ (Million)	Percent Change (%)	US\$ (Million)	Percent Change (%)
<b>Brunei</b>	126.9	0.74	12.0	0.04
<b>Cambodia</b>	675.9	4.14	352.3	0.71
<b>Indonesia</b>	7,054.3	0.79	1,292.1	0.09
<b>Lao PDR</b>	260.2	2.22	79.5	0.28
<b>Malaysia</b>	6,639.0	1.96	306.4	0.04
<b>Myanmar</b>	820.0	1.29	85.8	0.05
<b>Philippines</b>	7,490.0	2.63	1,979.9	0.20
<b>Singapore</b>	2,231.0	0.73	114.4	0.02
<b>Thailand</b>	7,967.3	1.97	1,425.8	1.43
<b>Vietnam</b>	6,096.4	3.25	364.5	0.08
<b>Canada</b>	5,104.4	0.29	2,543.5	0.10

**Table 3: Changes in Exports of ASEAN Member States to Canada (US\$ Million)**

	Goods, NTMs and Trade Facilitation				Goods, Services and Investment		
	Primary	Manufacturing	Services		Primary	Manufacturing	Services
<b>Brunei</b>	0.0	0.9	0.3		0.0	0.1	7.4
<b>Cambodia</b>	0.1	396.8	0.0		(0.3)	1,271.1	0.8
<b>Indonesia</b>	13.2	860.7	0.7		5.9	1,336.5	17.2
<b>Lao PDR</b>	0.1	5.4	0.2		(0.0)	139.7	1.0
<b>Malaysia</b>	1.1	315.0	(2.7)		10.2	9.0	108.1
<b>Myanmar</b>	0.4	10.0	0.1		0.0	32.7	2.8
<b>Philippines</b>	3.6	378.2	(3.6)		37.9	367.0	57.5
<b>Singapore</b>	0.5	99.1	4.2		(0.0)	5.5	(4.5)
<b>Thailand</b>	48.3	867.3	3.7		184.4	927.5	83.7
<b>Vietnam</b>	13.1	350.1	(2.9)		(0.3)	157.3	55.3

**Table 4: Changes in Imports of ASEAN Member States from Canada (US\$ Million)**

	Goods, NTMs and Trade Facilitation				Goods, Services and Investment		
	Primary	Manufacturing	Services		Primary	Manufacturing	Services
<b>Brunei</b>	0.2	10.7	(0.1)		(0.0)	0.1	10.0
<b>Cambodia</b>	0.6	9.6	0.6		0.3	17.7	6.9
<b>Indonesia</b>	186.0	661.3	0.4		21.8	171.7	105.4
<b>Lao PDR</b>	0.0	19.8	0.2		0.0	14.2	63.0
<b>Malaysia</b>	60.4	375.6	6.3		(0.4)	4.5	110.9
<b>Myanmar</b>	1.2	18.6	0.0		0.7	6.7	106.6
<b>Philippines</b>	297.9	454.7	3.5		854.3	264.5	111.0
<b>Singapore</b>	18.1	152.3	(15.9)		(0.2)	5.4	(13.7)
<b>Thailand</b>	180.2	451.7	7.5		51.3	356.9	315.7
<b>Vietnam</b>	49.3	221.2	6.3		7.6	6.6	67.2

Canada and four ASEAN member states (Brunei, Malaysia, Singapore, and Vietnam) are Parties to the CPTPP. Once the CPTPP Agreement enters into force, Canada will have a free trade agreement with four of ten ASEAN member states. As such, Canada and the ASEAN CPTPP countries will benefit from a reduction and elimination of tariffs and other barriers once the CPTPP enters into force. As a result, the modelling indicates that Canada's trade with ASEAN member states that are not party to the CPTPP will increase relatively more from an ASEAN-Canada FTA than Canada's trade with ASEAN countries that are party to the CPTPP. Total bilateral trade between Canada and ASEAN's non-CPTPP member states is expected to increase by US\$7.0 billion.

At the same time, ASEAN countries that are party to the CPTPP also stand to gain from an ASEAN-Canada FTA. This would, in part, be as a result of new ASEAN-Canada rules of origin that would permit ASEAN CPTPP countries to build on and strengthen their supply chains with non-CPTPP ASEAN countries. This is in contrast to the CPTPP rules of origin, which limit the full potential of intra-ASEAN supply chains by treating only the content from the four ASEAN countries that are part of CPTPP as originating. An ASEAN-Canada FTA would extend the cumulative effect associated with rules of origin to all ASEAN members in the context of ASEAN-Canada bilateral trade, increasing shared production among ASEAN countries.

This cumulative effect would not only boost ASEAN CPTPP countries' trade with Canada, but would also result in greater sourcing flexibility amongst ASEAN members themselves, ultimately increasing intra-ASEAN trade. Furthermore, the analysis shows that ASEAN CPTPP countries' trade with Canada would increase by US\$546.3 million, and their trade with ASEAN non-CPTPP members would increase by US\$1.45 billion (shown in Table 5). Overall, intra-ASEAN trade gains resulting from cumulative rules of origin as well as overall income gains under an ASEAN-Canada FTA would total US\$2.68 billion.

**Table 5: Trade between CPTPP and non-CPTPP Countries of ASEAN Member States as a result of an ASEAN-Canada FTA (US\$ Million)**

	Imports from ASEAN				Exports to ASEAN			
	CPTPP		Non-CPTPP		CPTPP		Non-CPTPP	
	Change	Percent Change (%)	Change	Percent Change (%)	Change	Percent Change (%)	Change	Percent Change (%)
<b>Non-CPTPP</b>	1059.5	0.01	625.7	0.005	394.9	0.003	596.8	0.005

\*Canada's Office of the Chief Economist Outcomes

### *Variations in the Modelling Results*

ASEAN and Canada worked to reduce variations in the modelling results by using a shared data set and applying the same assumptions for tariff elimination. To further enhance the value of the study, ASEAN and Canada conducted analysis on additional liberalization in other areas to demonstrate the benefits of liberalization beyond goods. The results showed that gains beyond goods liberalization would be significant.

### *Conclusion and Next Steps*

Taken together, the analysis demonstrates that a comprehensive agreement (i.e. one that moves beyond tariff liberalization alone) would create greater opportunities for both ASEAN member states and Canada. Furthermore, liberalization of tariffs, services and investment, removal of NTMs and improvements to trade facilitation within an FTA would have a positive impact on bilateral trade and GDP for all ASEAN member states and Canada.

By co-developing the joint feasibility study and including multi-scenario analysis, a comprehensive perspective on the potential benefits of an ASEAN-Canada FTA was provided, which emphasized how different factors have the potential to expand the trading relationship and reinforce economic integration between Canada and ASEAN member states.

This study shows that the economic gains that would result from trade expansion between Canada and ASEAN's non-CPTPP members would be larger than the gains experienced by ASEAN CPTPP countries. ASEAN CPTPP countries, however, would also benefit from a potential FTA with Canada as they are expected to accrue additional gains as a result of greater sourcing flexibility resulting from cumulative rules of origin. As a result, ASEAN's non-CPTPP countries would not only expand trade with Canada, but also expand trade with ASEAN's CPTPP countries.

The ASEAN-Canada trade relationship holds significant potential for further growth. As it continues to expand, it will be important to develop a framework to facilitate growth and adapt to new trends and challenges in international trade and investment. An FTA can provide a stable platform for strengthening engagement and cooperation between the two Parties.

Based on the findings of the joint study and their conclusions, it is recommended that ASEAN and Canada engage in a deeper trade and investment relationship that could include the negotiation of a comprehensive FTA between both trading partners.