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## Canada's free trade agreements in an international perspective

Rick Cameron  
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### Summary

Regional and bilateral trade agreements have become prominent features of the multilateral trading system, and Canada is moving forward with its own regional and bilateral negotiating agenda. Canada has so far implemented six free trade agreements (FTAs) involving 10 countries, including those with NAFTA and more recently with EFTA partners. Compared to other advanced economies, Canada is middle-of-the-pack in terms of the number of FTAs, but when measured as a percentage of merchandise trade with FTA partners, Canada is in the top third, given the heavy weight of NAFTA partners in our trade. The integration of emerging economies into world trade has caused the share of trade covered by FTAs to fall for most major economies. However, Canada has experienced among the largest declines in this measure, with the percentage of trade with FTA partners going from 79.6 percent to 70.6 percent between 2000 and 2008. This is due to the decline in the share of the U.S. in our merchandise trade. Canada is also ranked near the bottom of the advanced economies in terms of FTA coverage of its merchandise trade with developing/emerging economies. This points to a need to conclude new FTAs with these economies, as well as with other advanced economies, to reverse the decline in FTA coverage of our trade.

### Background

This paper briefly examines Canada's free trade agreements as well as those of the other advanced economies<sup>1</sup>, along with six select developing economies namely Mexico, Chile, and the BRICs. The analysis includes only those agreements that have been ratified, and excludes preferential trade agreements, or PTAs, that only reduce tariffs for certain products between partner countries.

Those countries who are members of the EU along with those who have an FTA with the EU lead in terms of total number of FTAs (Table 1). Canada has implemented six FTAs involving 10 countries including those with NAFTA and with EFTA, putting it in the middle-of-the-pack amongst the advanced economies by this measure.

**Table 1**  
**Number of Partner Countries**  
**Covered by Free Trade Agreements**

	TOTAL	of which	
		<i>Advanced</i>	<i>Developing</i>
Advanced EU*	70	24	46
Chile**	52	31	21
EFTA***	51	27	24
Mexico**	44	28	16
Israel	36	26	10
Singapore	24	9	15
Brazil	19	1	18
US	17	4	13
Korea	14	5	9
Japan	12	1	11
Russia	11	0	11
Canada	10	6	4
India****	9	1	8
China	8	3	5
Australia	6	3	3
New Zealand	6	2	4
Taiwan	5	0	5
Hong Kong	1	0	1

\* Totals include 26 (and 19 advanced) internal EU partner countries.

\*\* Totals include 27 (and 20 advanced) EU partner countries.

\*\*\* Includes 27 (20 advanced) EU partners and 3 internal EFTA partners.

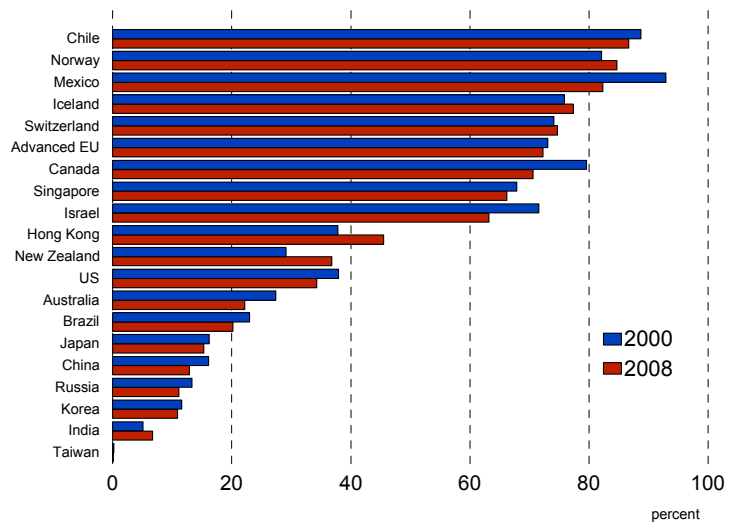
\*\*\*\* India's FTA count includes an FTA with Yugoslavia.

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<sup>1</sup> The IMF classifies 33 economies as advanced: Canada, the United States, Japan, Australia, New Zealand, Israel, the EFTA countries of Iceland, Norway, and Switzerland, the four newly industrialized Asian economies of Hong Kong, Korea, Singapore, and Taiwan, and 20 economies found in the EU, specifically, Austria, Belgium, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom. To this list we have added Liechtenstein as an advanced economy.

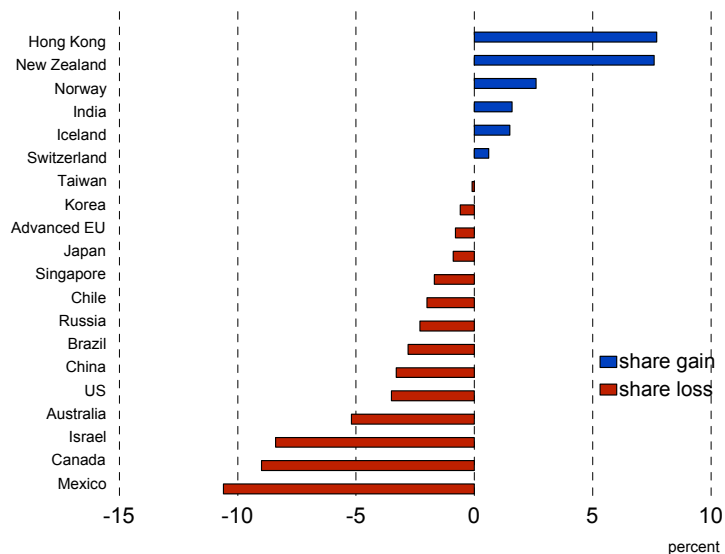
Another way to look at the trade liberalizing performance of a country is to examine the coverage (or share) of trade that is liberalized. “Trade” is restricted to merchandise trade and all trade between FTA partners is counted as “covered” and therefore the analysis provides an approximate benchmark, in view of the fact that FTAs usually have sectoral exemptions. It is clear that the extent to which advanced and developing economies use trade liberalization as part of their trade policy varies considerably—from nearly 90 percent coverage for Chile to less than one percent for Taiwan.

Share of Merchandise Trade Covered by FTAs : 2000 and 2008



To gain some historical perspective on the evolution of trade with FTA partners, the trade shares with these same partners is included for 2000. Canada has experienced among the largest declines in this measure as the share of trade going to FTA partners in its total merchandise trade fell from 79.6 to 70.6 percent, due to the decline in the share of the U.S. in Canada’s trade. Only Mexico saw a larger decline in the share of FTA partners in its trade. However, most of the other countries examined also experienced declines in their shares as well. This does not suggest that FTAs lead to slower growth in trade. Rather, it is indicative of changing trade patterns, and in particular, the increased share in international trade of developing economies, which have fewer FTAs with the advanced economies.

Change in Share of Merchandise Trade Covered by FTAs between 2000 and 2008



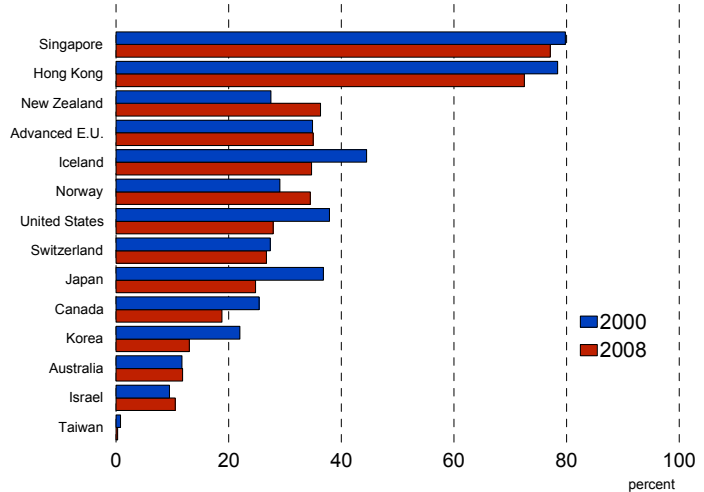
Another contributing factor is rising commodity prices and a consequent shift in trade to resource-rich economies that also have fewer FTAs with the advanced economies, such as the oil-rich OPEC member nations.

The above analysis looks at how trade has evolved with present day FTA partners. The actual change in FTA coverage has been influenced by the negotiation of new agreements over the period. In Canada’s case, trade agreements with NAFTA, Chile, and Israel accounted for 78.5 percent of Canadian trade in 2000. Three new FTAs came into force over the period (with Costa Rica, EFTA, and Peru). This increased the percentage of trade covered by FTAs by 1.8 percentage points. This was offset by a 9.8 percentage point reduction in FTA coverage due to the shift in trade away from FTA partners, more than fully accounted

for by a 10.8 percentage point shift away from the United States. This points to a need for Canada to strike new FTAs to help offset the declining trend in trade with the U.S.

While Canada compares reasonably well with the other advanced countries in terms of FTA coverage for our total trade, Canada ranks near the bottom of the advanced economies in terms of FTA coverage of its trade with developing economies (including emerging economies). Only 18.8 percent of our trade with these countries is covered by FTAs, versus 27.9 percent for the U.S., and 35.0 percent for the EU. We do however have a higher FTA coverage for trade with developing economies than Australia, thanks to the significant share of Mexico in our merchandise trade with developing economies.

FTA-covered Merchandise Trade with Developing Economies as a share of Total Merchandise Trade with Developing Economies : 2000 and 2008



As with total trade, many of the advanced countries have seen FTA coverage with developing countries fall, as trade with non-FTA partner developing countries has outpaced that of trade with FTA partners in the developing world. In this regard, Canada’s FTA coverage with developing economies slipped by 6.6 percentage points over the period, ahead of only Korea (which saw its developing economy coverage fall by 9.0 percentage points), Iceland (down 9.9 percentage points), the United States (down 10.0 percentage points), and Japan (down 12.0 percentage points) in this performance measure. Strong trade performance with Peru and Chile helped in the Canadian performance. Again, new FTAs, particularly with the fast-growing Asian nations, would help bolster Canada’s performance on this measure.