

# FREE TRADE TRUMPS PROTECTIONISM

Posted on January 23, 2017

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This past year has seen a growing sentiment against free trade initiatives around the world. The British Brexit vote to leave the EU was one such initiative. The *Comprehensive Economic Trade Agreement* (“CETA”) between Canada and the EU was almost derailed by last minute opposition in Europe. President Trump has indicated his willingness to terminate (or renegotiate) the *North American Free Trade Agreement* (“NAFTA”), and to end the recently-concluded Trans-Pacific Partnership (“TPP”) free trade agreement between twelve Pacific-rim nations. Even The Democratic presidential nominee Hillary Clinton showed luke-warm support, at best, for the TPP.

Economic theory is unequivocal in expressing the fact that removing tariff and non-tariff barriers to trade confers net economic benefits on every economy that embraces free trade. While there may inevitably be winners and losers as production is rationalized between free trade partners, economies as a whole, and consumers in particular, always benefit. Indeed, economic theory tells us that even a country that unilaterally removes barriers to trade will experience a net economic benefit, even if its partners do not lower their own tariff and non-tariff barriers.

Amidst the recent upsurge in anti-free trade sentiment, it is instructive to review Canada’s existing free trade arrangements and assess the impact these agreements have had in generating growth in economic relations between Canada and its free trade partners.

The *Canada United States Free Trade Agreement* (“CUFTA”) was signed in 1989. At that time, two-way merchandise trade between Canada and the United States was \$190 billion dollars per year. By 2015, under *NAFTA*, annual two-way merchandise trade alone grew to \$688 billion dollars per year. Trade in services grew from \$30 billion dollars to over \$125 billion dollars in the same period. American investors also benefited from the substantially increased protection conferred by Chapter 11 of *NAFTA* for assets held in Canada. Cumulative foreign direct investment between Canada and the United States has grown from \$197 billion in 1995 to \$837 billion in 2015.

*CUFTA* was suspended with the extension of free trade to Mexico under *NAFTA*, and that agreement entered into force in 1994. Merchandise trade between Canada and Mexico, from 1994 to 2015, has grown from \$6.51 billion dollars to \$37.8 billion dollars, and bilateral trade in services has grown from \$640 million dollars to \$3.6

billion dollars between 1994 and 2014.

Following *NAFTA*, Canada concluded bilateral trade agreements with Israel, Chile, Costa Rica, the European Free Trade Association, Peru, Colombia, Jordan, Panama, Honduras and Korea. While trade with these countries is not of the same magnitude as with the United States and Mexico, these free trade agreements have already paid dividends in increased economic activity.

The *Canada-Israel Free Trade Agreement* (“*CIFTA*”) came into force January 1, 1997. Since this agreement was signed, Canada’s two-way merchandise trade with Israel has tripled to \$1.6 billion in 2015. The biggest driver of increased trade under *CIFTA* is Canadian imports of Israeli merchandise, which has grown from \$315 million in 1997 to \$1.2 billion in 2015, an increase of 284 per cent.

Also coming into force in 1997 was the *Canada-Chile Free Trade Agreement* (“*CCFTA*”), signed December 5, 1996. *CCFTA* was Canada’s first trade agreement with a South American Country. Prior to its enactment, bilateral trade in goods and services between Canada and Chile was \$859 million dollars. By 2015 two-way trade in goods alone had reached \$2.6 billion dollars. An economic impact assessment of *CCFTA* published in 2013 calculated that Canada’s overall economic welfare gains from the agreement were approximately a quarter of a billion dollars annually.<sup>[1]</sup>

Brought into force on November 1, 2002, the *Canada-Costa Rica Free Trade Agreement* (“*CCRFTA*”) is one of Canada’s less comprehensive trade agreements and focuses mainly on trade in goods. Total merchandise trade under *CCRFTA*, while modest, reached \$666 million dollars in 2015, up from \$251 million dollars in 2001.

The summer of 2009 marked the implementation of free trade agreements, with the European Free Trade Association countries of Iceland, Liechtenstein, Norway and Switzerland (“*CEFTA*”) as of July 1, 2009, and with Peru as of August 1, 2009 (the *Canada-Peru Free Trade Agreement*, “*CPFTA*”). Canadian exports under both *CEFTA* and *CPFTA* have increased since implementation.

Canadian exports of live animals and animal products to Iceland, Norway and Switzerland have increased by 76 per cent; growing from \$503 million dollars in 2008 to \$886 million dollars in 2015. Canadian exports of goods to Peru reached an all time high in 2015, coming in at \$858 million dollars, a 7.8 per cent increase from 2014, and a 126 per cent increase from 2008 (\$380 million dollars). One of the areas seeing significant growth is the export of Canadian vegetable products, which has increased by 230 percent since 2008, reaching \$503 million dollars in 2015.

Since the beginning of 2011, Canada has implemented a free trade agreement every year: Canada – Colombia on August 15, 2011, Canada – Jordan on October 1, 2012, Canada – Panama on April 1, 2013, Canada – Honduras on October 1, 2014, and most recently Canada – Korea on January 1, 2015. While still in the process of the

negotiated tariff reduction process, these agreements are already yielding positive results.

Since the entry into force of the *Canada Colombia Free Trade Agreement* (“CCOFTA”) two-way trade in services with Colombia has grown by 58 per cent. Notably, Canadian exports of commercial services reached \$89 million dollars in 2014, up from \$60 million dollars prior to the COFTA’s implementation.

Similar positive growth has been seen under the *Canada Jordan Free Trade Agreement*. (“CJFTA”). Canadian sales of goods to the Jordan have grown 20 per cent since CJFTA’s implementation. During this time Canada’s largest export to Jordan, motor vehicles and parts, has nearly tripled.

Two-way merchandise trade has increased with both Panama and Honduras since the *Canada Panama Free Trade Agreement* (“CPAFTA”) and the *Canada Honduras Free Trade Agreement* (“CHFTA”) were implemented. Canadian sales of pharmaceutical products to Panama tripled from 2012 to 2015, reaching \$13 million dollars in 2015. Likewise, Canadian imports of Honduran motor vehicle parts and accessories have seen noteworthy growth under CHFTA, increasing from \$875 thousand dollars in 2013 to \$3.95 million dollars in 2015, and further growing to \$11.5 million dollars year-to-date for 2016.

Canada’s most recent trade agreement that is in force, the *Canada Korea Free Trade Agreement* (“CKFTA”), is already having an impact. CKFTA is Canada’s first free trade agreement in the Asia-Pacific region. In its first year of implementation Canada has experienced export gains in both agricultural products and industrial goods. Comparisons between the second quarters of 2015 and 2016, show export gains in live animal and animal products, which increased from \$39 million dollars in Q2 2015 to \$65 million dollars in Q2 2016 (66 per cent growth). Similarly, Canadian exports of canola oil doubled from Q3 2015 to Q3 2016, going from \$9.7 million dollars to \$21 million dollars.

## **Conclusion**

Despite the rumblings of anti-free traders around the world in recent years, Canada’s experience is that increased trade with its free trade partners has resulted in hundreds of billions of dollars in economic benefits to Canadians. Undoubtedly, trade frictions will continue, and in Canada certain sectors may find themselves disadvantaged at times in trading with these partners, but the greater concern will continue to be with other trading partners, such as China, for whom economic agents are not constrained by the disciplines and two-way opportunities that arise from free trade agreements. The very recent announcement of initiation of free trade discussions with China would seem to indicate that Canada recognizes these concerns, and the beneficial impact of free trade agreements.

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[1] Foreign Affairs and International Trade Canada, “The Economic Impact of the Canada-Chile Free Trade

Agreement” (May 30, 2013), available at:

[http://www.international.gc.ca/economist-economiste/assets/pdfs/research/canada\\_chile-canada\\_chili-eng.pdf](http://www.international.gc.ca/economist-economiste/assets/pdfs/research/canada_chile-canada_chili-eng.pdf). [ps2id id='1' target='']

### **A Cautionary Note**

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