CANADIAN COUNCIL of CHIEF EXECUTIVES
CONSEIL CANADIEN des CHEFS D'ENTREPRISE

Backgrounder
Trans-Pacific Partnership: what's in it for Canada?

July 2014

About the CCCE

***The Canadian Council of Chief Executives** brings CEOs together to shape public policy in the interests of a stronger Canada and a better world. Member CEOs and entrepreneurs represent all sectors of the Canadian economy. The companies they lead collectively administer C$4.5 trillion in assets, have annual revenues in excess of C$850 billion, and are responsible for the vast majority of Canada's exports, investment, research and development, and training.*

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The Trans-Pacific Partnership (TPP) was conceived in 2003 by Singapore, New Zealand and Chile to enhance economic integration in the Asia-Pacific region. Since then, the negotiations have expanded to include Brunei, the US, Peru, Australia, Vietnam, Malaysia, Canada, Mexico and most recently, Japan. A number of other countries have expressed interest in joining the negotiations including South Korea, the Philippines, Laos, Colombia, Indonesia, Cambodia, Bangladesh, Thailand and India.

In 2013, TPP members had a combined GDP of nearly $28 trillion USD. The consumer market potential is huge with TPP countries home to over 800 million people. Economic modelling estimates that the TPP could yield annual income gains of $9.9 billion USD for Canada and increase exports by $15.7 billion USD[1].

TPP Market Potential, 2013

Country	GDP (current USD)	Population (millions)
Australia	1,560,597,150,412	23.1
Brunei	16,111,135,789	0.4
Canada	1,825,096,387,909	35.2
Chile	277,198,774,857	17.6
Japan	4,901,529,519,266	127.3
Malaysia	1,260,914,660,977	122.3
Mexico	312,435,494,621	29.7
New Zealand	182,594,469,395	4.5
Peru	202,295,635,536	30.4
Singapore	297,941,261,088	5.4
United States	16,800,000,000,000	316.1
Vietnam	171,391,820,360	89.7
Total	**27,808,106,310,209**	**801.8**

Source: The World Bank

[1] Petri, Peter A. and Plummer, Michael G. *The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications,* Peterson Institute for International Economics, June 2012

Canada's total bilateral merchandise trade with TPP members was worth $681 billion in 2013, representing 72 per cent of Canada's total bilateral trade that year[2]. TPP countries are also a significant source of both inward and outward stocks of Canadian investment with two-way investment of over $764 billion in 2013.

Canadian Trade and Investment – TPP Members (millions), 2013

Country	Canadian Exports	Canadian Imports	Total Trade	Outward Investment Stocks	Inward Investment Stocks	Total Investment
Australia	1,656	1,795	3,451	23,444	6,942	30,386
Brunei	24	7	31	-	-	-
Chile	802	1,753	2,555	16,642	-	16,642
Japan	10,662	13,731	24,393	4,715	17,305	22,020
Malaysia	782	2,180	2,962	569	1	570
Mexico	5,386	26,727	32,113	12,289	22	12,311
New Zealand	396	514	910	553	-	553
Peru	607	3,076	3,682	8,120	-	8,120
Singapore	975	1,298	2,274	2,154	683	2,837
United States	358,207	247,815	606,022	318,346	352,125	670,471
Vietnam	429	2,142	2,571	-	-	-
Total	**379,925**	**301,037**	**680,962**	**386,832**	**377,078**	**763,910**

Source: Statistics Canada

An important and often overlooked component of Canada's trade with the world is the growing importance of Canada's services trade. The services sector accounts for 72 per cent of Canadian GDP, 75 per cent of employment and 90 per cent of new job creation. Canada exported nearly $84 billion in services internationally in 2011, with services exports to TPP members growing by 8% between 2007 and 2011.

[2] All figures in CAD unless noted.

Canadian Services Trade – TPP Members (millions), 2011

Country	Canadian Exports	Canadian Imports	Total Trade
Australia	1,319	814	2,133
Brunei	-	-	-
Chile	189	111	300
Japan	1,275	1,490	2,765
Malaysia	340	263	603
Mexico	800	2,127	2,927
New Zealand	162	154	316
Peru	-	-	-
Singapore	694	1,634	2,328
United States	45,867	60,551	106,418
Vietnam	66	55	121
Total	**50,712**	**67,199**	**117,911**

Source: Statistics Canada

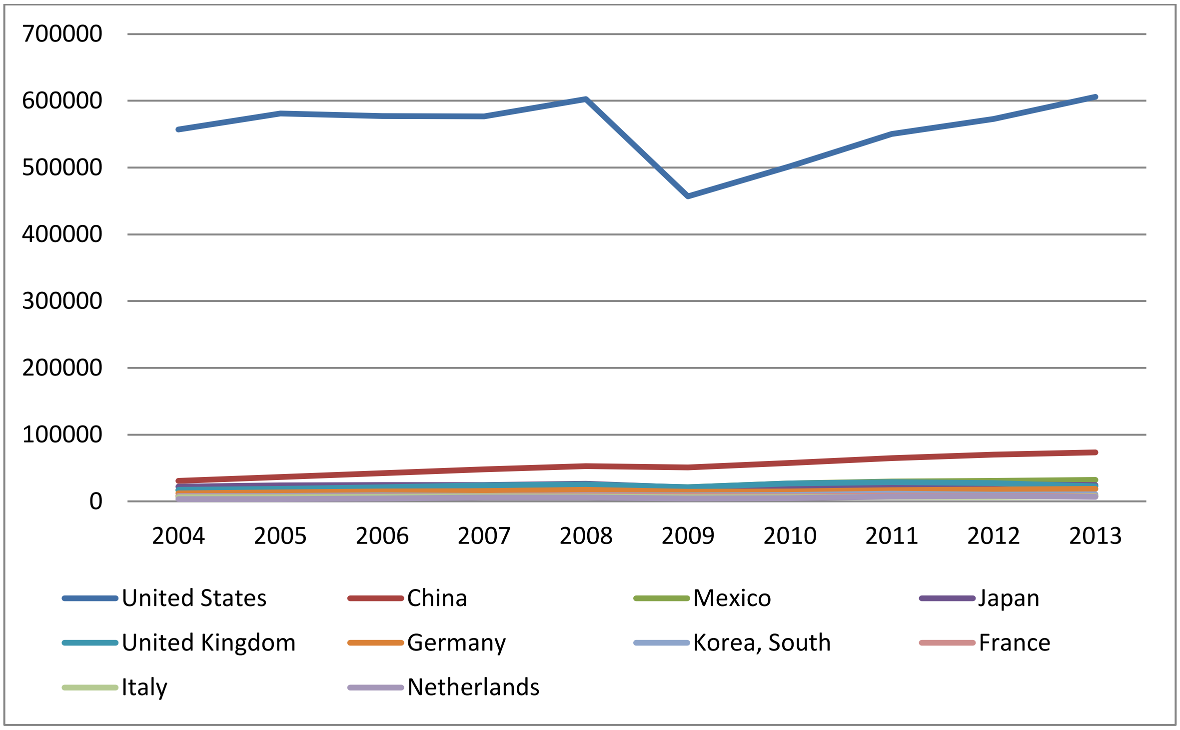
Why the TPP Matters

One in five Canadian jobs depends on exports. According to the federal government's 2012 report *Canada's State of Trade,* exports account for 26.1 per cent of Canada's gross domestic product (GDP)[3].

But Canada's trade outside of North America is low and poorly diversified. The US remains Canada's largest trading partner by a wide margin, responsible for 64 per cent of Canada's total bilateral trade.

[3] Calculated on a value-added basis (i.e. when removing the import content of gross exports).

Canada's Top Merchandise Trade Partners (millions of CAD)



Source: Statistics Canada

The Bank of Canada has repeatedly warned of the need for Canada to diversify export markets. In a recent speech to the Saskatchewan Trade and Export Partnership, Governor Poloz noted that while there is no doubt than an improving US economy is good for Canada "the growth potential of emerging-market economies is projected to be about four times that of the world's advanced economies".

Over the next twenty years, Asia's middle class will generate significant increases in demand for energy and natural resources, financial services, education, cleaner technology and environmental improvements. In fact, by 2030, 66 per cent of the global middle class is projected to live in the Asia Pacific region[4].

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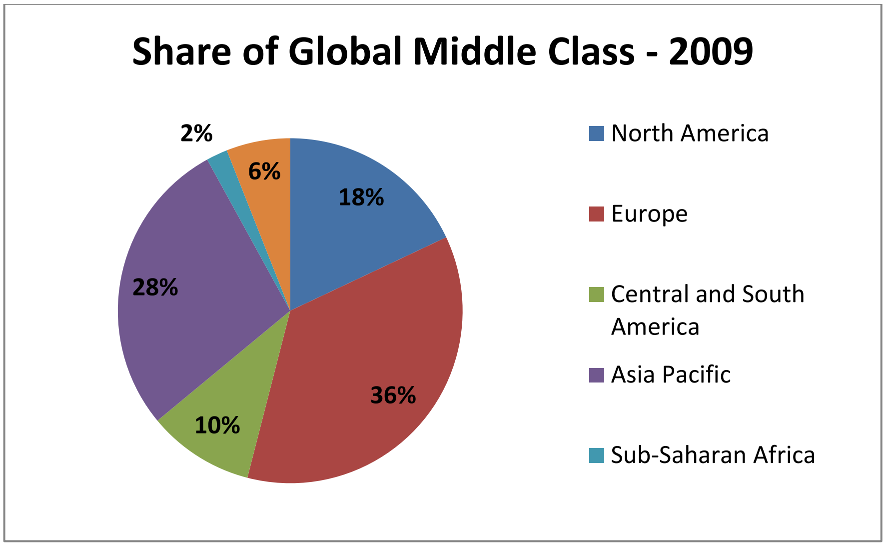
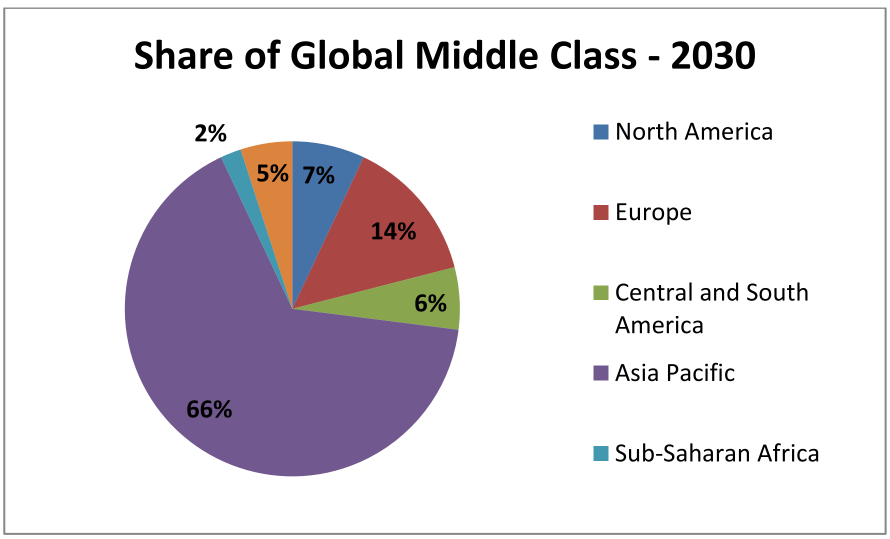
[4] Kharas, Homi, "*The Emerging Middle Class in Developing Countries*", OECD Development Centre, Working Paper N. 285, January 2010.

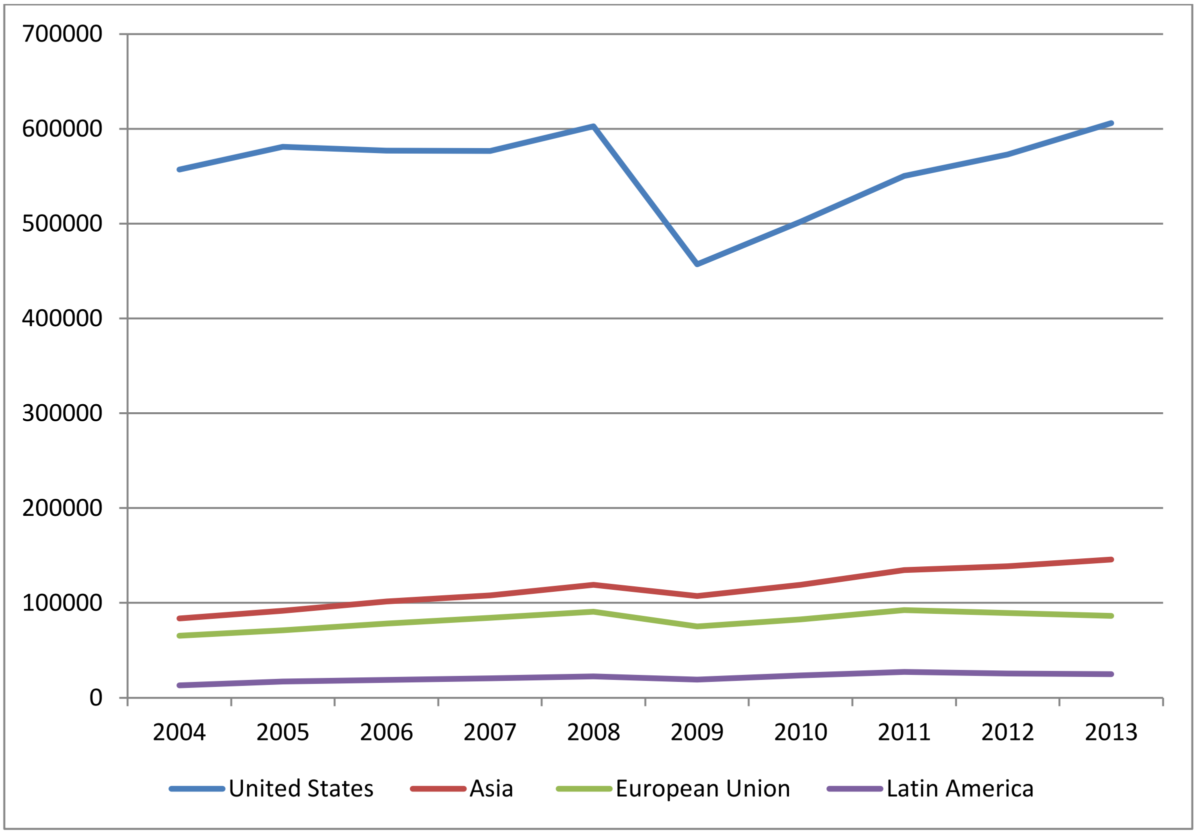




Source: The Emerging Middle Class in Developing Countries, Homi Kharas, Working Paper No. 285, January 2010, OECD Development Centre

Canada is not well positioned to take advantage of massive urbanization and the rapid growth in the ranks of Asia's middle class consumers. Asia is responsible for 15 per cent of Canada's total bilateral trade. While this has grown from 11 per cent in 2011, it still pales in comparison to Canada's trade with the US. If Canada is to take advantage of the Pacific Century, trade and investment liberalization must be a priority.

Canadian Regional Trade Relationships



Source: Statistics Canada

Canada has only one trade agreement in Asia with South Korea. More needs to be done. With its current members, the TPP region is responsible for approximately 40% of the world's economic output. More importantly, the TPP has the potential to expand to include other major economies in the Asia-Pacific region. Concluding an ambitious, high quality TPP agreement is the most efficient way for Canada to deepen its integration with other Asian economies and take advantage of Asia's fast-growing markets.

Canada's Opportunity

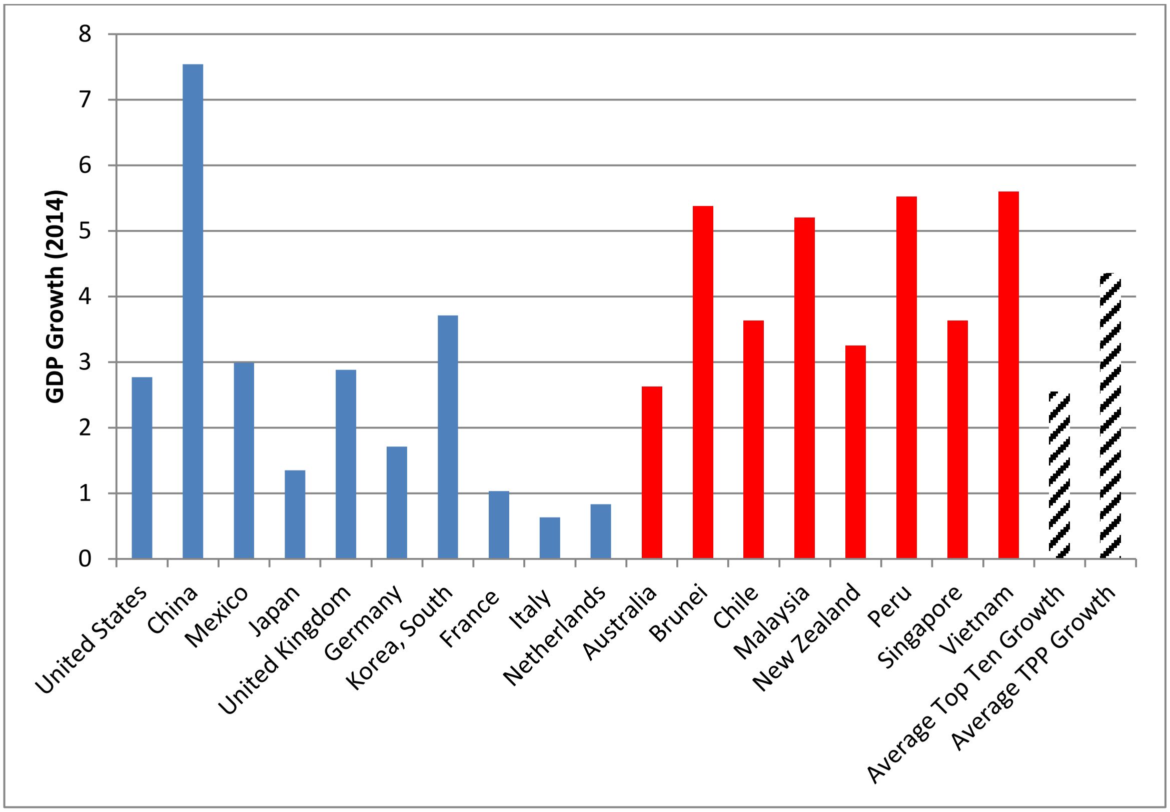
The market opportunities for Canada in the TPP are primarily in those countries where Canada does not have existing free trade agreements - Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam.

Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam had a combined GDP of $8.4 trillion USD in 2013 and a population of 278 million. Of these countries, Japan provides the most significant opportunities for Canadian businesses due to GDP and population size.

Vietnam and Malaysia have the potential to become important markets for Canadian businesses given projected growth rates. According to the International Monetary Fund, both countries will witness GDP growth of 5 percent or higher through to 2019.

Canada's top ten bilateral trade partners (blue) are responsible for 86% of Canada's total trade. The average projected growth rate of these countries for 2014 is 2.5 per cent. The TPP countries (red) are responsible for only 1.8 per cent of Canada's total trade yet have an average projected growth rate of 4.4 per cent in 2014. With the exception of China and South Korea, Canada's trade is concentrated in slow growth economies.

Projected GDP Growth – Canada's Top Ten Trading Partners vs TPP Countries



Source: Statistics Canada, IMF

While most markets have relatively low levels of traditional trade protection, Japan offers Canada the most new market potential with an average trade weighted tariff of 3 per cent and low import penetration (17.8% of GDP). Vietnam and Malaysia also offer Canada new export opportunities given rapid growth projections and higher levels of import protection when compared to other TPP members.

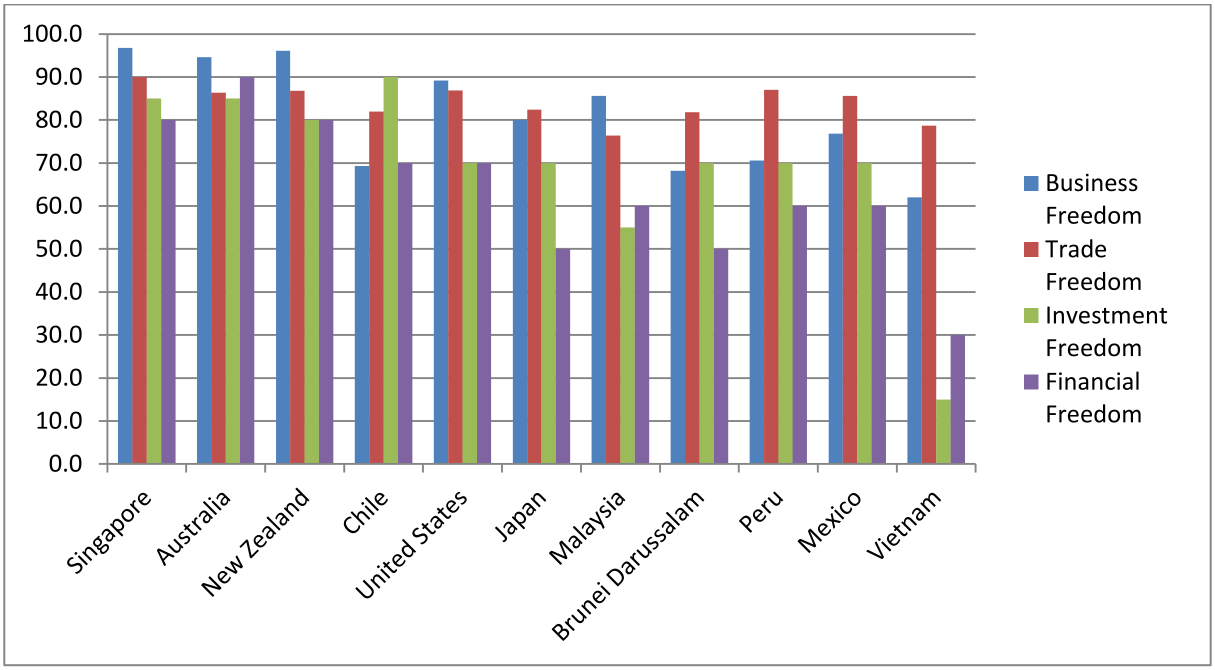
Trade Openness

Country	Imports of goods and services as % of GDP	Trade weighted average tariff	Total Canadian Exports
Australia	21.2	4.1	1,655,864,774
Brunei	27.8	3.6	23,985,723
Chile	34.7	4.7	801,990,654
Japan	17.8	3.0	10,662,061,843
Malaysia	78.6	5.0	781,827,167
Mexico	34.5	8.3	5,386,370,788
New Zealand	29.0	2.0	395,899,005
Peru	25.0	1.9	606,661,843
Singapore	179.6	0.2	975,484,761
United States	17.5	1.3	358,206,769,366
Vietnam	91.4	8.0	428,555,114

Source: *Statistics Canada, World Economic Forum*

Significant gains for Canada in these markets will also come from improvements in the business climate. The TPP provides an opportunity for developing economies to adopt transparent and non-discriminatory policies that will improve market efficiency.

Market Freedom



Source: 2014 Index of Economic Freedom

Singapore, Australia, New Zealand, Chile, the US and Japan are among the world's top 25 freest economies according to the *2014 Index of Economic Freedom*. These economies have high levels of business, trade, investment and financial freedom.

Malaysia, Brunei, Peru, Mexico and Vietnam rank lower in the index. The TPP has the potential to improve both the regulatory framework that influences business freedom and the level of openness in the market. Domestic reforms that enhance market freedom will provide greater certainty for Canadian businesses trading with or investing in these economies.

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