

Intelligence MEMOS



From: Daniel Schwanen and Dan Ciuriak
To: Canadian and ASEAN Trade Officials
Date: August 25, 2020
Re: **CANADA AND ASEAN TRADE AGREEMENT CAN FOSTER ECONOMIC RECOVERY,
DEVELOPMENT AND WELL-BEING**

ASEAN Member States and Canada are contemplating their next steps toward a possible trade agreement, even as they continue to be burdened with the health, economic and social impact of COVID-19. There are compelling reasons for both sides to launch negotiations and to bring such a trade agreement into force as expeditiously as possible.

ASEAN and Canada are both trade-dependent economies with similar interests in maintaining supply lines as open as possible and subject to minimal disruption of cross-border flows of medical and other critical goods and in travel routes and transport logistics. An agreement – preferably one with an “early harvest” – would strengthen trade flows and the opening of negotiations would send a strong positive signal to markets at a time when uncertainty clouds every horizon.

In terms of trade, each side would gain as reduced tariff and non-tariff barriers would reflect comparative advantages. On that score, ASEAN and Canada have complementary economies, both with strengths in specific natural resources, agri-food, other manufacturing, and services such as tourism, logistics, software, and finance. Trade in areas such as medical devices and pharmaceuticals, as well as digital trade, is also ripe for growth in the post-COVID era.

Importantly, two of the 10 ASEAN member states – Singapore and Vietnam – already have free trade commitments with Canada through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Moreover, ASEAN already has a trade agreement with an economy with the characteristics and comparative advantages that Canada has. This is the ASEAN-Australia-New Zealand FTA. From an ASEAN perspective, the sensitive issues that such an agreement with Canada would raise have already been largely worked out in negotiations and, indeed, the internal economic adjustments have already been made.

Beyond the direct benefits of a bilateral ASEAN-Canada agreement, there is a much bigger concept in play. A new agreement should allow businesses, other organizations, and talent in Canada and ASEAN member states to more easily partner with their counterparts in each other's countries, thereby enhancing their competitive position in third markets. Growth in joint business ventures including research, and other bilateral links such as the growth of micro-multinationals in each other's markets, should be closely tracked as indicators that an agreement is assisting its signatories to grow and compete globally.

In these regards, Canada's strong research capabilities, intellectual property, and regulatory regime, combined with preferential access to North America and Europe, and reasonable costs even in advanced technology fields, could benefit from the growth of ASEAN businesses in these markets. Meanwhile, greater integration of Canadian businesses into supply chains in the much faster-growing ASEAN region, where GDP could grow seven-fold over the next 30 years, with commensurate growth in infrastructure needs and consumer demand, is an important piece of Canada's trade diversification agenda.

Accordingly, in conjunction with the launch of negotiations towards an FTA, Canada and ASEAN should hold parallel talks on how to help businesses actually take advantage of better access to markets. They should support businesses, investors and institutions from Canada and ASEAN joining forces to address infrastructure, equipment and skills development needs. As well, they should think how collaboration can benefit industries as diverse as tourism, transportation or banking adapt to new post-COVID trends in demand and take advantage of the new business realities, including a rise in virtual collaboration.

The agreement should also support Canada and ASEAN's joint focus on small businesses, whose growth is so important to raising standards of living in economies as diverse as Canada, Indonesia or the Philippines. Reducing trade, information, and technology adoption costs for small businesses should be a key outcome of this agreement. Fairs and virtual marketplaces around specific themes such as health, clean energy, the use of AI, should be sponsored and open to businesses and professionals operating in Canada or ASEAN member states.

In the age of COVID-19, and the resulting reinforcement of what were already emerging emphases on safety, reliability and sustainability, the time-honoured principle of “know your customer” needs to be augmented by another one: “know your supplier.”

As every country evolves its own policies to take advantage of new trends and technologies that will accelerate post-pandemic, they will need the reliability and flexibility of a common platform that makes trade easier, fosters innovative business and professional relationships, and promotes fair competition and high product and services standards.

A Canada-ASEAN trade agreement should be the centerpiece of such a move, helping position its members for growth as the world economy struggles to recover.

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The authors are grateful to the Canada ASEAN Business Council, with which they are collaborating on related research, for comments on an earlier version of this memo.