Notes for an Appearance by Jim Stanford
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Under the previous Conservative government (from 2006 through 2015), Canada entered free trade arrangements with 10 new countries – more than any other federal government in Canadian history. The government also signed two large multilateral trade deals (the CETA and the TPP), which would engage 35 more countries in free trade relations. In the same time, the Conservative government also reached investment protection agreements with 25 countries (including China); these agreements were also supposed to boost Canadian trade performance by attracting more foreign direct investment (including into export-oriented sectors).

Yet throughout this period, Canada's trade performance declined badly. In fact, that deterioration was more marked in bilateral trade flows with Canada's FTA partners, than with the rest of the world. So is signing more free trade agreements part of the solution to Canada's trade woes … or has it in fact been part of the problem?

Table 1 reports several indicators of aggregate export performance for Canada's economy, broken into two periods: from 1981 through 2001, and the period since 2001 (including the first three quarters of data for 2015). In the last 20 years of the last century, Canadian exports of both goods and services grew robustly, both in real terms and as a share of GDP. Total exports grew dramatically from 26.5 percent of GDP in 1981 to a peak of 42.0 percent in 2001. Since then, however, merchandise exports have grown by under 1 percent per year. Services exports grew faster – but less than one-third as quickly as in the pre-2001 period, and more slowly than GDP. Both goods and services exports therefore shrank as a share of GDP (dramatically so for merchandise), so that by 2015 the total export share shrank to 31.4 percent of GDP, undoing most of the increase in trade intensity that occurred during the 1981-2001 period.

Imports have grown more rapidly than sluggish exports, with the result that trade balances and current account balances deteriorated significantly. Table 2 summarizes this trend, broken down into decade averages. Since 2010, weak non-resource exports, combined with the eventual collapse in the resource price bubble, has been reflected in merchandise trade deficits (unusual in Canada's history) and even larger current account deficits. Current account deficits have exceeded 3 percent of GDP, on average, since 2010, reflected in a consequent increase in net foreign indebtedness.

Canada's export performance has been weak relative to previous periods of history, and also relative to other industrial countries – suggesting that our trade failures since 2001 cannot be blamed solely on global macroeconomic conditions. Table 3 reports Canada's performance on three comparative indicators of trade success, relative to the broader community of 34 OECD countries. Canada's trade performance since the turn of the century has been uniquely poor, relative to the broader set of industrialized countries.

It is not just the quantity of net exports which has disappointed. There has been an important and, in my view, dangerous qualitative shift in Canadian exports. Since the turn of the century, the global commodities boom shifted both capital and policy attention toward extractive industries, and this reallocation was reflected in a rapid change in the composition of Canadian exports. Higher prices and growing real quantities of resource exports made primary products the most important component of total exports by the onset of the global financial crisis in 2008. By 2014 primary sectors accounted for 40 percent of total exports, eclipsing the importance of value-added products. (Since then there has been an encouraging rebound in value-added exports, driven in part by the decline in the Canadian dollar.)

Further insight on the relationship between trade liberalization and trade performance can be gleaned by decomposing trade flows between Canada and its free-trade partners, and comparing that to Canada's trade with the rest of the world. This decomposition is provided in Table 4. Canada's exports to FTA partners grew slowly after 2001: by just 1.1 percent year for the U.S., and only slightly faster for the other FTA partners. In contrast, exports to countries with which Canada does not presently have a free trade deal grew six times as fast (by 6.8 percent per year). On the import side of the ledger, the comparison is equally striking. Imports grew close to twice as fast as exports for our FTA partners, the key driver of the deterioration in overall trade balances for. Imports from non-FTA partners also grew quickly, by 4.7 percent per year. But it was only with non-FTA partners that Canada's exports grew faster than its imports. Again, this contradicts the assumption that FTAs will somehow give Canadian exports "preferential" status in other countries; our exports performed better with non-FTA trading partners (both relative to imports from those same countries, and relative to our FTA partners).

The most recent FTA implemented by Canada was with South Korea. The fact that Korea shares many of the same structural features as other east Asian economies (such as Japan, Malaysia, Taiwan, and Singapore) also suggests this experience will be important in judging the likely impact of the proposed TPP. Unfortunately, Canada's experience with Korea is not encouraging, and is summarized in Table 5. Exports to Korea actually declined by 4 percent during the FTA's first year of existence, while imports from Korea grew by 9 percent. It is impossible to conclude that this important FTA has stimulated Canadian exports, though it has clearly liberalized imports. And sadly, the Korean experience is typical of Canada's unbalanced trade performance with its other FTA partners during this period.

The evidence is strong that Canada's trade performance has deteriorated badly since the turn of the century, at the same time as our government implemented the most broad trade liberalization policy in our history. Moreover, the evidence is strong that our trade performed worse with FTA partners than with the rest of the world. Merely eliminating bilateral trade barriers (tariffs and others) and cementing the mobility and rights of private investment, is no guarantee that all parties to an FTA will benefit from it. In reality (as opposed to economic theory), net benefits from trade liberalization depend on the competitiveness of domestic production (according to cost, innovativeness, and quality), whether exports grow more than imports, and whether more foreign investment enters than leaves. Our dollar was substantially overvalued (relative to its purchasing power parity benchmark) through most of this period, largely because of the resource boom. And Canadian firms (other than in the resource sector) were not prepared or able to increase their role in international markets, no matter how many trade deals were signed. The result was a loss of market share (at home and abroad), weak domestic investment, and a vicious circle of deindustrialization that only exacerbated our poor structural position in world trade.

The policy response to this disappointing set of circumstances should certainly not be "more of the same, but with more gusto this time." Canada's abysmal trade performance since 2001 has nothing to do with a lack of free trade deals – to the contrary, the deals we signed probably made a bad situation incrementally worse. A better focus for trade policy should be supporting the efforts of Canadian-based firms (whether Canadian- or foreign-owned) to upgrade and expand their capacities, do a better job of innovation, and increase their exports. That is a much more concrete, but complex task, than simply sending our diplomats off to sign another trade deal.

Table 1 Measures of Export Performance 1981-2015			
	Goods	**Services**	**Total**
Real: Export Growth (chained $2007)			
1981-2001	6.63%	5.30%	6.48%
2001-2015	1.00%	1.66%	1.08%
Nominal: Exports as Share of GDP			
1981	23.5%	3.0%	26.4%
2001	36.7%	5.3%	42.0%
2015	26.4%	5.0%	31.4%
Change: 1981-2001	13.3%	2.3%	15.6%
Change: 2001-2015	-10.4%	-0.3%	-10.7%
Source: Author's calculations from data in Statistics Canada CANSIM Tables 380-0064.			

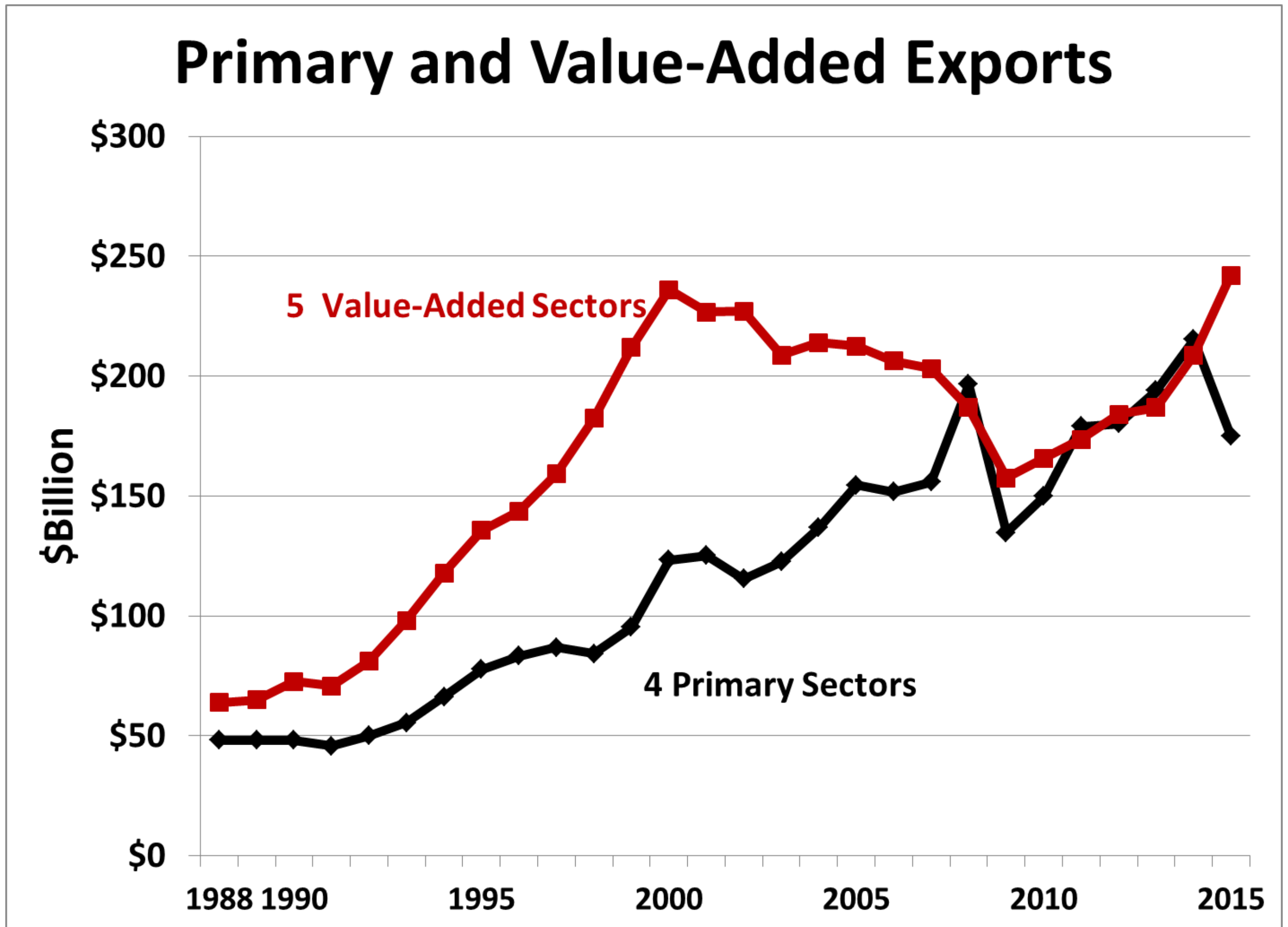
Table 2 Components of Current Account Balance Decade Averages (%GDP)				
	Goods	**Services**	**Other**	**Total**
1981-1989	2.8%	-0.9%	-4.0%	-2.2%
1990-1999	2.7%	-1.2%	-3.5%	-2.0%
2000-2009	3.9%	-0.6%	-2.2%	1.1%
2010-2015	-0.4%	-1.2%	-1.5%	-3.1%
Source: Author's calculations from data in Statistics Canada CANSIM Tables 376-0103.				

Table 3 International Comparisons of Trade Performance			
	Canada	**OECD Average**	**Canada Rank (of 34)**
Real growth in exports of goods and services 2001-15 (compound annual average)	0.7	3.6	33
Current account balance, 2010-15 (average share of GDP)	-3.0	-0.2	29
Foreign balance contribution to GDP growth, 2002-15 (average share of GDP)	-0.8	0.1	32
Source: Author's calculations from data in *OECD Economic Outlook*, Volume 2015, Issue 2, Annex Tables 39 and 52, and OECD.stat database.			

Table 4 Trade Performance by Region, 2001-2014		
	Avg. Annual Change (%)	
	Exports	**Imports**
All Products		
US	1.1%	1.9%
All FTA Partners	1.2%	2.4%
Non-FTA Partners	6.8%	4.7%
World	2.0%	3.1%
Manufactured Goods		
US	-0.5%	1.3%
All FTA Partners	-0.3%	1.8%
Non-FTA Partners	4.2%	5.0%
World	0.3%	2.8%
Source: Author's calculations from Industry Canada Strategis Database.		

Table 5 Canada-Korea Trade Trends, 2015			
	Exports to Korea	**Imports from Korea**	**Deficit**[1]
All products *(yr./yr. change)*	\$4.025 (-3.9%)	\$7.875 (+8.7%)	-\$3.850 (+25.9%)
Manufactures *(yr./yr. change)*	\$1.875 (+0.3%)	\$7.687 (+8.7%)	-\$5.813 (+11.7%)
Source: Author's calculations from data in Industry Canada Strategis database. 1. Positive sign on change in deficit indicates a *larger negative* trade balance.			

Figure 1



Source: Author's calculations from Statistics Canada CANSIM Table 228-8059.
Primary includes agriculture, forestry, energy, and mining. Value-added includes automotive, aerospace, machinery, electronics, and consumer goods.