ASIA PACIFIC
FOUNDATION
OF CANADA

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DU CANADA

THE
FIRST YEAR

THE CPTPP TRACKER

2019

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ABOUT THE ASIA PACIFIC FOUNDATION OF CANADA

The Asia Pacific Foundation of Canada (APF Canada) is dedicated to strengthening ties between Canada and Asia with a focus on expanding economic relations through trade, investment, and innovation; promoting Canada's expertise in offering solutions to Asia's climate change, energy, food security, and natural resource management challenges; building Asia-related skills and competencies among Canadians, including young Canadians; and improving Canadians' general understanding of Asia and its growing global influence.

APF Canada is well known for its annual national opinion polls of Canadian attitudes regarding relations with Asia. APF Canada places an emphasis on China, India, Japan, and South Korea, while also developing expertise in emerging markets in the region, particularly economies within the Association for Southeast Asian Nations.

Visit APF Canada at www.asiapacific.ca.

ABOUT THE TRADE TRACKER

The future of the global economy is in the Asia Pacific. The region is home to many of the world's fastest-growing economies and is already responsible for 46% of global GDP and 34% of global exports. But with trade liberalization under attack and protectionism on the rise, free trade agreements (FTAs) with Asian powerhouses become even more important, especially for trading nations such as Canada.

In order to contribute to Canada's engagement in Asia, the Asia Pacific Foundation of Canada (APF Canada) has developed the Trade Tracker, an instrument dedicated to providing performance assessments of the main FTAs that Canada is a part of in the Asia Pacific region. The Trade Tracker monitors, analyzes, and forecasts trends and opportunities in Canada's international trade and investment relations with its partner countries. It also identifies markets and sectors where Canadian exports of goods and services have been the most successful in taking advantage of the elimination of trade barriers facilitated by FTAs.

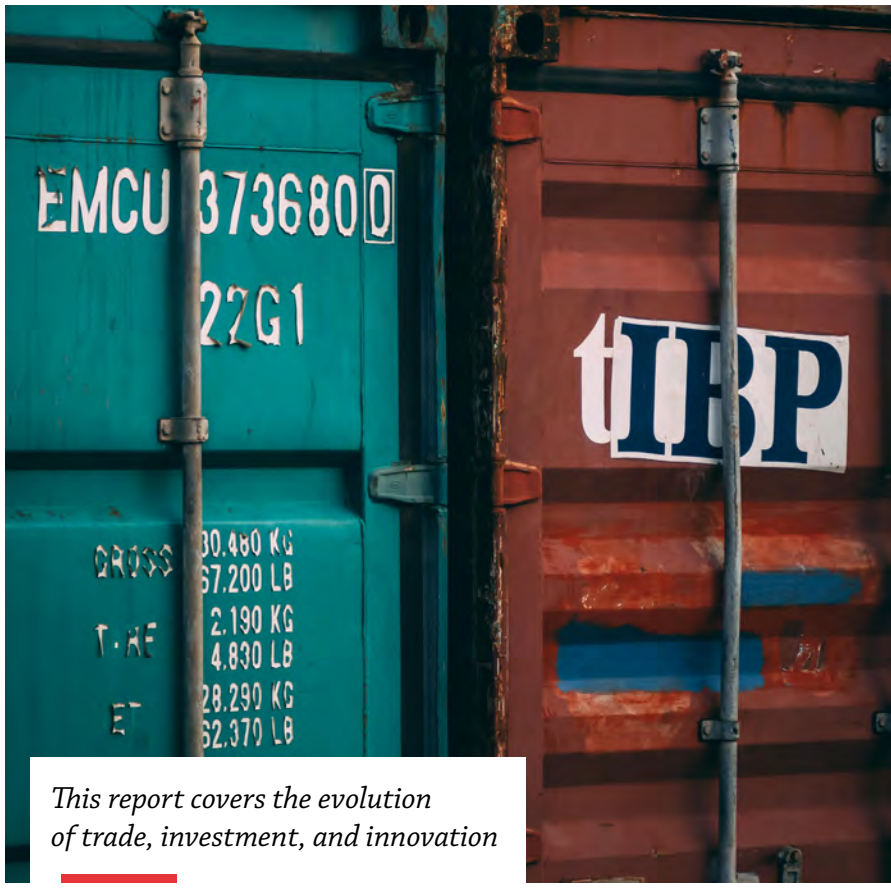
EXECUTIVE SUMMARY

Canada embraced the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) as the best gateway to expand market opportunities in the Asia Pacific and to consolidate a strong set of rules for trade, investment, and innovation in the 21st century. However, the CPTPP entered into force on December 30, 2018, in the context of an already-protracted trade war between the United States and China that has compromised the possibilities of Canadian trade expansion in the years to come.

APF Canada's 2019 Trade Tracker presents an early assessment of the first year of implementation of the CPTPP. The Tracker shows early gains and losses in trade expansion and the opportunities created for Canadian businesses.

THE FIRST EDITION OF THE CPTPP TRACKER STARTS WITH A REVIEW OF THE EVOLUTION OF TRADE, INVESTMENT, AND INNOVATION WITH THE CPTPP AREA. IT ANALYZES THE FOLLOWING:

1. Month-to-month evolution of exports, imports, and investment flows between Canada and CPTPP countries.
2. How the big picture of the international political economy of the US-China trade war has affected - or not - the first year of the CPTPP outcome.
3. Product categories winning or losing within the CPTPP area in the first year.
4. Value-added goods and advanced manufacturing within the CPTPP area.
5. Effects on trade diversification.
6. Conclusion.



This report covers the evolution of trade, investment, and innovation

Source: Photo by Latrach Med Jamil on Unsplash

KEY TAKEAWAYS FROM THE REPORT

CANADA EXPORTED A TOTAL OF C$19B WORTH OF GOODS TO CPTPP COUNTRIES BETWEEN JANUARY AND SEPTEMBER 2019.

Canada's domestic exports to CPTPP signatories have not seen a significant increase since the beginning of the year, in spite of efforts to promote exports to this new mega free trade zone. On the contrary, Canada's domestic exports to these countries in the first nine months of 2019 have declined by 3%, or C$538M, in comparison to the same period of the previous year.

CANADA'S EXPORTS TO CPTPP COUNTRIES ARE HIGHLY CONCENTRATED. The top three export markets – Japan, Mexico, and Australia – account for 82% of Canada's total CPTPP exports. As of September 2019, Canada has exported a total of C$16B worth of products to these three countries alone.

CANADIAN EXPORTS ARE GROWING FASTER IN MALAYSIA, VIETNAM, AND NEW ZEALAND THAN IN THE LARGEST EXPORT DESTINATIONS OF JAPAN, MEXICO, AND AUSTRALIA. The distribution of Canadian exports might change going forward if this trend continues.

ANIMAL PRODUCTS, MACHINERY, AND MINERAL PRODUCTS ARE THE FASTEST-GROWING EXPORT SECTORS FOR CANADA WITHIN THE CPTPP. Animal products, which made up 11% of Canada's total CPTPP exports in the first nine months of 2019, have increased the most out of all product categories.

TRADE IN THE PACIFIC REGION MUST BE ANALYZED WITHIN THE CONTEXT OF THE UNRELENTING TRADE WAR BETWEEN CHINA AND THE UNITED STATES. The accumulated rate of trade deceleration in exports to China reached -67% for Japan, -55% for Mexico, and -40.5% for Canada. China's economic slowdown is also slowing down exports in the wider Asia Pacific region, and the bad news is that the United States is not picking up the slack to stop the trend.

MACHINERY HAS BEEN LEADING THE EXPORT GROWTH OF VALUE-ADDED GOODS TO CPTPP COUNTRIES IN 2019. From January 2018 to September 2019, Canada's machinery exports to CPTPP countries increased by C$213M, or 10%. As of September 2019, Canada has already exported C$2B worth of machinery products to member countries.

DESPITE GAINS, THERE ARE SECTORS WITH SIGNIFICANT DECLINES. While Canada's base metal exports have seen growth in five of the 10 CPTPP markets, Canadian base metal exports to Japan decreased to half of their 2018 level, a drop of more than C$328M. The drop in the Japanese market alone offset gains of C$31M in the other five markets, and it is the strongest signal to date of the crisis in Japan's automotive sector.

OVERVIEW AND RATIONALE FOR THE ANALYSIS

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is the first mega free trade agreement negotiated in the Asia Pacific. The agreement began in 2005 as a small initiative from Singapore, New Zealand, Chile, and Brunei aimed at creating a Pacific Rim free market area. The concept was soon embraced by the United States and other countries on both sides of the Pacific. In 2017, President Donald Trump withdrew the United States, forcing the remaining members to renegotiate a new version of the deal, which was signed in March 2018. Today, the 11 remaining members of the amended CPTPP are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

The CPTPP formally entered into force on December 30, 2018. For Canada, it represents a breakthrough in accessing the most diverse and promising region of the world, where most global value chains have been created in the last two decades: Asia.[1] And the possibility of participating in these global value chains is precisely the central comparative advantage of the CPTPP. First, the deal includes the services sector, allowing increased talent mobility within the free trade area. Second, the deal goes beyond existing World Trade Organization rules in areas such as intellectual property rights, as well as Indigenous traditional knowledge and investment protection. Third, and probably most important for Canada's future economic prosperity, the deal expands traditionally limited rules of origin to allow for the flow of more intermediate goods around the region. And finally, by the end of the deal's negotiations, Canada was able to secure additional "comprehensive and progressive" measures – the most important among them being exceptions for trade issues related to Indigenous people and cultural industries.

To assess how Canada would benefit from joining the CPTPP, the Office of the Chief Economist at Global Affairs Canada ran a simulation in 2018 using the Computable General Equilibrium (CGE) model.[2]

That assessment anticipated significant gains and estimated that Canada could add C$4.2B to its GDP by 2040 as a result of additional exports in goods and services to member economies (valued at C$2.7B), as well as new investments received by Canada. This gain is considerably higher than it would have been if the United States had joined the agreement, nabbing vast market share in economies across the region. According to the CGE model, total exports to all countries are expected to increase another C$2B, since it is expected that some exports will deviate from non-CPTPP countries into the CPTPP area because a new trade deal tends to increase the rate of trade with other areas as well.[3]

The CGE forecast anticipated an increase in Canadian exports to four key countries, in order of benefit: Japan, Australia, Vietnam, and Malaysia. The CGE model singled out Japan as the most promising market for Canadian exporters, not only because of swift reductions in tariffs across the board through the CPTPP, but also because Canadian exports were estimated to grow as much as 8.6% until 2040 if the United States, Canada's major competitor in the Japanese market, were not to join the agreement.

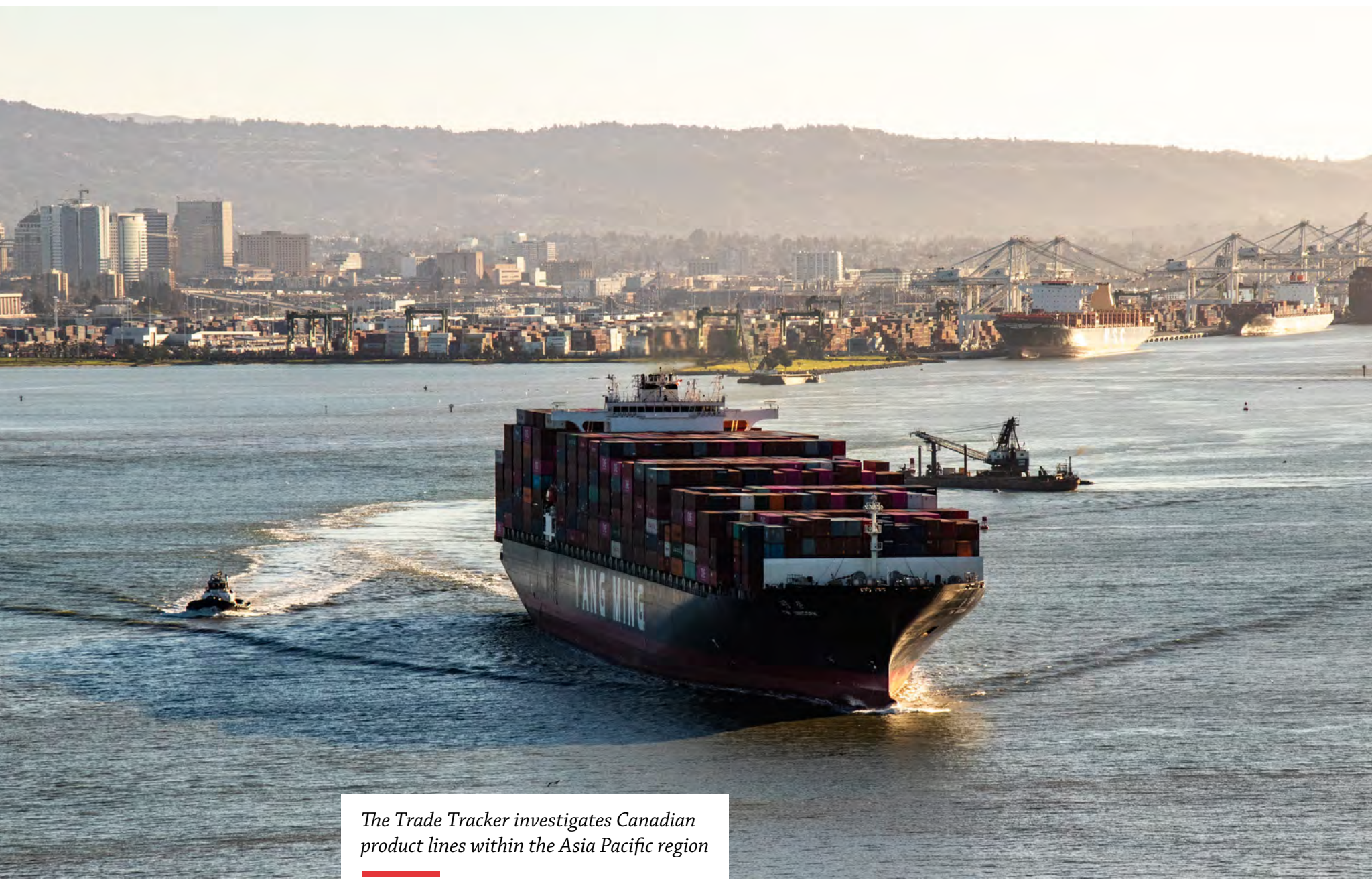
While the CGE model provides a valuable baseline to estimate the CPTPP's benefits for Canada, it relies on assumptions of regularity in the functioning of the economy where "all things are equal," and a moderate ratio of tariff use among member economies. Further, it cannot account for other variables across time, like unexpected crises or sudden economic downturns. Beyond the CGE baseline, and to fully realize the economic benefits of the CPTPP to Canada, it is important to assess Canada's CPTPP performance in the context not only of trade liberalization and diversification, but also of Canadian integration into larger production networks in the Asia Pacific.

The CPTPP Trade Tracker was created to do just that – to monitor over time the evolution of exports from Canada to CPTPP countries, identifying markets and sectors where Canadian products have been the most successful in taking advantage of this historic trade deal.

The Tracker pays particular attention to product lines that insert Canada into global value chains within the Asia Pacific region. The underlying assumption is that the CPTPP offers an already mostly tariff-free environment with significantly low tariffs for most agricultural products and raw materials. But

as the Canada-Europe Comprehensive Economic and Trade Agreement (CETA) demonstrates, exporters tend to take advantage of tariff reductions that are above 5%, with benefits usually going to value-added goods.[4]

In addition, these value-added goods receive further benefits under the CPTPP's regional rules of origin that allow ease of entry into untapped production networks through trade and investment. These production networks represent key opportunities for Canadian value-added goods, especially in the manufacturing sector, that could open doors for the export of new products and services, such as those promoted by Canada's new Innovation Superclusters Initiative. By tracking value-added traded goods in CPTPP countries, it will be possible to assess niche opportunities in the region for Canadian innovations.[5]



The Trade Tracker investigates Canadian product lines within the Asia Pacific region

Source: Photo by Austin Filippi on Unsplash

Methodology

APF Canada collected monthly statistics primarily from the Canadian International Merchandise Trade Database (CIMTB) as well as from primary official sources from CPTPP members to perform this analysis. Additional data was collected from the International Monetary Fund, the World Bank, the World Trade Organization, and the United Nations Conference on Trade and Development.

Using monthly data from the CIMTB, APF Canada assessed relative gains calculating the compound average growth rate (CAGR) for exported goods in the last 33 available months (January 2017 to September 2019) to forecast trends in trade. The CAGR is also contrasted with simple growth rates to control for seasonal changes where the comparison is done through the same months in previous years. In both cases, charts and trendlines have been drawn to help visualize. Current export values were used to determine growth rates within the months under study.

This year's Trade Tracker has four main sections. The first assesses the impact of the U.S.-China trade war on the world economy and, more specifically, on the largest CPTPP economies. The second section presents the evolution of Canada's export growth to the CPTPP area in the last 33 months and compares the seasonal behaviour of the first nine months of 2019 to the same period in 2018. The third section identifies the winning sectors of the year and the ones that experienced the sharpest declines. This section also breaks down value-added manufacturing, identifying the products that have set a stronger record for exports within the CPTPP. Finally, as investment is one of the key indicators of an FTA's success, this report includes a section about foreign direct investment coming into and out of Canada in the last year. It also provides a glimpse of how investment has performed in the first two quarters of 2019.

APF Canada has expanded its Investment Monitor database to include all CPTPP countries, including Chile, Mexico, and Peru, which were not previously part of this online service. Our Investment Monitor will present a full assessment of investment patterns in its 2020 annual report.

The limitations of this study derive mainly from the fact that we are comparing data for just nine months of 2019. We acknowledge that the overall calculation of Canada's performance within the CPTPP in 2019 will only be conclusive once yearly statistics become available. The Trade Tracker: CPTPP offers an early assessment of Canadian trade and investment performance in the new trade bloc to inform decision-makers in the public and private sectors before the new year begins. However, by collecting month-to-month information about trade within the Asia Pacific region, APF Canada has established a strong database that will enable us to forecast cycles of trade in the years to come.

Lastly, APF Canada collected statistics on the four most important sectors and categories of goods that are sold into the CPTPP area following the Harmonized System (HS) code. Box 1 below explains in detail how the system is organized, and the appendix presents a detailed list of sections and product categories used in Canadian trade statistics to help readers navigate the difficult trade jargon and classifications.

WHAT IS THE HARMONIZED COMMODITY DESCRIPTION AND CODING SYSTEM (HS)?

The Harmonized System - henceforth HS - is a commodity classification standard adopted by nearly 200 countries or economic unions. It is the basis of how export and import statistics are reported around the world and in the Canadian International Merchandise Trade Database used in this study.[6] The HS system divides products into 21 sections, each encompassing product categories produced within the same sector of the economy. For example, Section 16, machinery and mechanical appliances, includes HS 84, nuclear reactors, boilers, machinery, and mechanical appliances, and HS 85, electrical machinery and equipment.

There are two main classifications used by this report:

- **Sections** refer to the groups of product categories that are generally produced in the same sector of the economy.
- **Product categories** are used to describe products at the HS level ranging from two to six digits. It is also the most common term used by businesses in reference to their export products. Canada has expanded its system up to eight levels for exports and 10 for imports. For the purpose of this study, we analyze product categories only at the two-digit HS level.

For a detailed list of product categories at the HS-2 level, please see the **appendix.**

THE US-CHINA TRADE WAR

The U.S.-China trade war has cast a pall over the global economy. The International Monetary Fund (IMF) had forecast that the world economy would grow 3.6% in 2019. In October 2019, it lowered its estimate to 3.0%, the lowest level of global growth since the financial crisis of 2008.[7] More importantly, the IMF has already forecast a lower growth rate for the Group of Four – the largest economies in the world, in order of value: the United States, Euro Zone, China, and Japan – by the second quarter of 2020.[8] By the end of 2019, a global economic slowdown was officially recognized by global financial institutions, including the IMF.[9]

The US-China trade war is having damaging global consequences

Source: Photo by Oleg Elkov on Getty Images

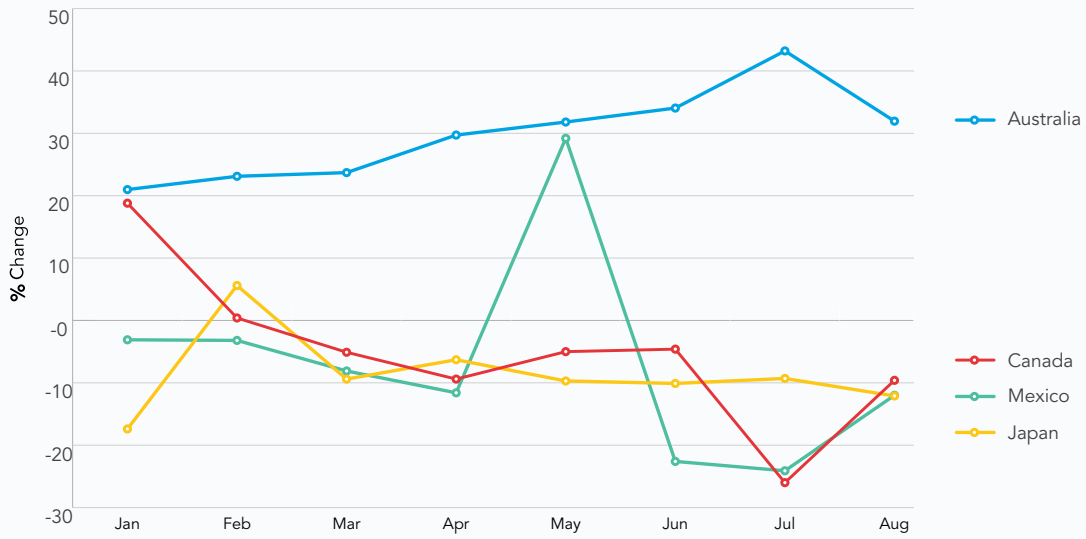
The consequences for trade are even more damaging. By September 2019, the compound average growth rate for global exports slowed down to –0.60% per month for the four largest economies and –0.90% for Canada.[10]

Trade slowed down significantly across the Pacific, breaking down traditional production networks, especially ones related to digital information and

communication technologies. Some investment and production started moving out of China to smaller economies such as Vietnam and Malaysia. It is important to remember that, until 2018, China captured 78% of global value chain production in information and communications technologies. Amidst the trade war, it is possible that even Chinese companies with interests in U.S. markets will relocate.

Consequently, it is necessary to take a step back to unpack how trade relations between China and the United States with CPTPP countries have evolved in the midst of their ongoing trade war. Starting with China, the accumulated rate of trade deceleration in exports reached -67% for Japan, -55% for Mexico, and -40.5% for Canada. The trends are evident in the figures that follow.

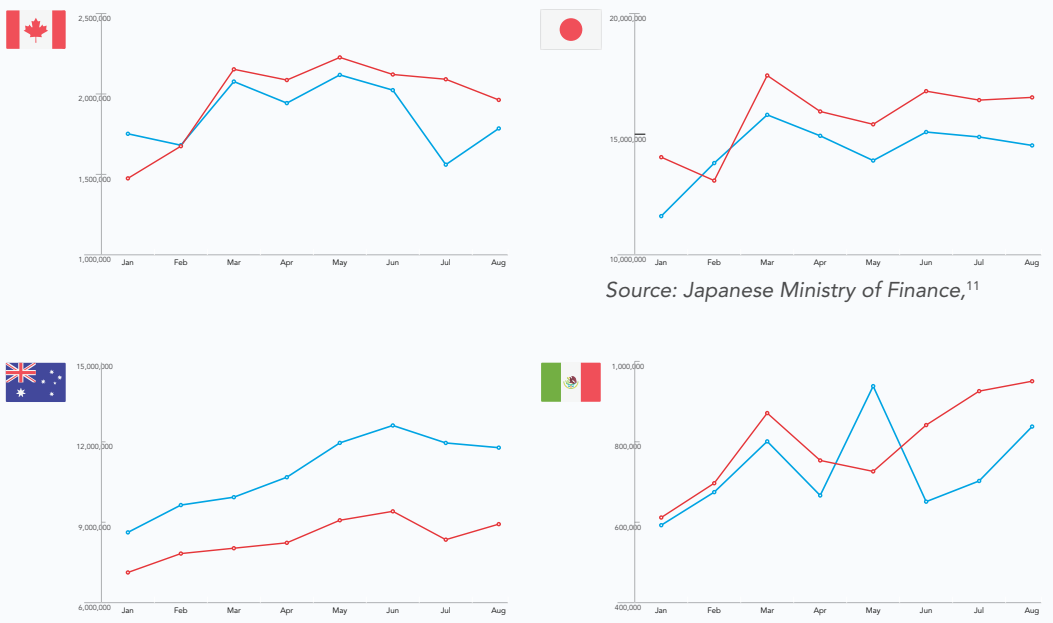
FIGURE 1
CPTPP countries' exports to China, Jan - Aug 2019



Sources: Japanese Ministry of Finance, 2019; Australian Bureau of Statistics, 2019; Mexico Secretaría de Economía, 2019

The seasonal comparison of the first eight months of 2019 with the same months of 2018 clearly shows the effects of China's slowdown of imports from the largest CPTPP countries, with the exception of Australia, which rather experienced a boom. For the rest, the downturn is visible and dramatic, considering that China is the largest trading partner for all of these countries, except for Canada. The Trade Tracker looked at the four largest CPTPP economies individually over the last 33 months to understand and compare their individual trends. The comparison is shown in Figure 2.

FIGURE 2
Comparison of export performance to China, 2018 - 2019
Value CA$ million



Source: Japanese Ministry of Finance,[11]

Source: Australian Bureau of Statistics, 2019 [12]

Source: Mexico Secretaría de Economía, 2019[13]

As Figure 2 shows, the slowing down of exports to China is particularly problematic for Canada and Mexico. It is possible that China's investments in production lines in Canada and Mexico are directly related to exports of final goods to the U.S. market and were conceived as a means of gaining access to NAFTA consumer markets. In any case, the disruption of global value chains in the wake of increasing U.S. protectionism has decreased the importance of Canada and Mexico across the Pacific region because they are no longer seen as centres for market penetration into the U.S.

The U.S.-China trade war has hit Canada especially hard. Canada was dragged into the fray through a U.S. extradition request for Huawei chief financial officer Meng Wanzhou, who was arrested and detained in Vancouver in December 2018, the same month the CPTPP was about to enter into force. China perceived the detention as a political decision by Canada and as a sign Ottawa was taking the United States' side in the trade war. China did not take long to retaliate. The first move was the arrest of two former Canadian diplomats living in China, Michael Spavor and Michael Kovrig. The second retaliatory wave hit Canadian exports in the form of non-tariff barriers that completely halted exports of canola, beef, and pork into China. As of December, 2019, only pork exports had resumed. Because of its strong bilateral relationship with China, Canada's trade performance was affected more than other CPTPP economies, in the context of an already-slowing global economic

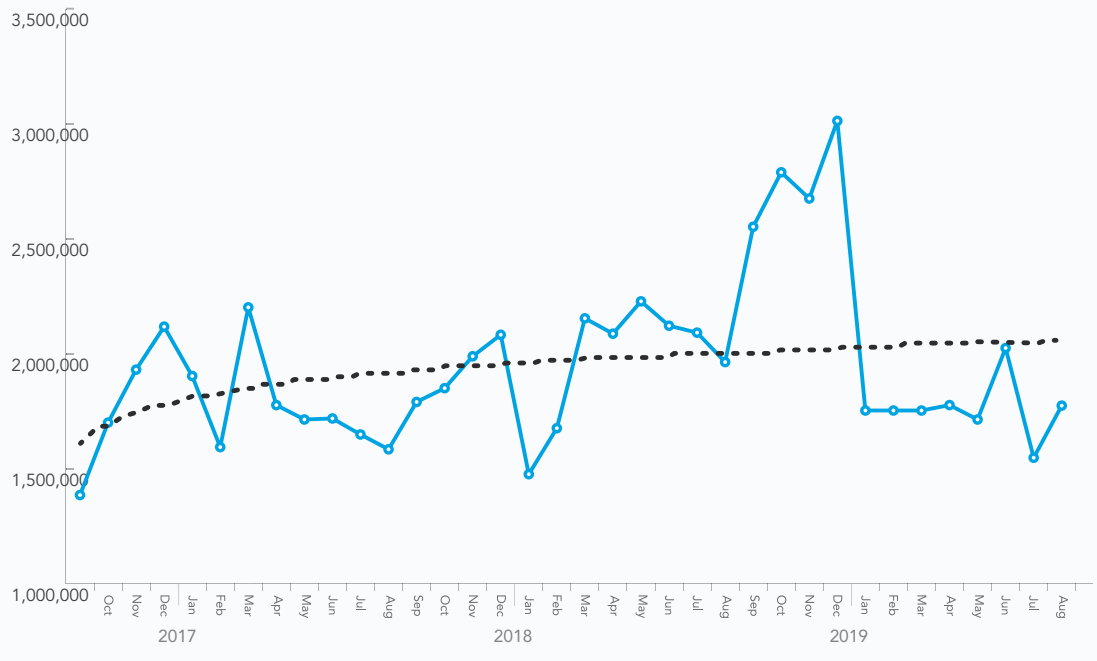
outlook. As Table 1 shows, the month-to-month percentage change of export growth compared to the exact months of the previous year confirm the effects of political tensions on Canadian export growth in China.

TABLE 1 | Percentage change related to previous years

Months	2017	2018	2019
January	25.7	−22.4	18.8
February	3.7	5.2	0.4
March	33.3	−2.2	−5.1
April	25.1	17.5	−9.4
May	20.5	29.9	−5
June	13.5	23.4	−4.6
July	13.5	26.9	−26
August	−2.1	21.0	−9.6
September	29.2	41.7	2.2
Average % change	**18.0**	**15.6**	**−4.2**

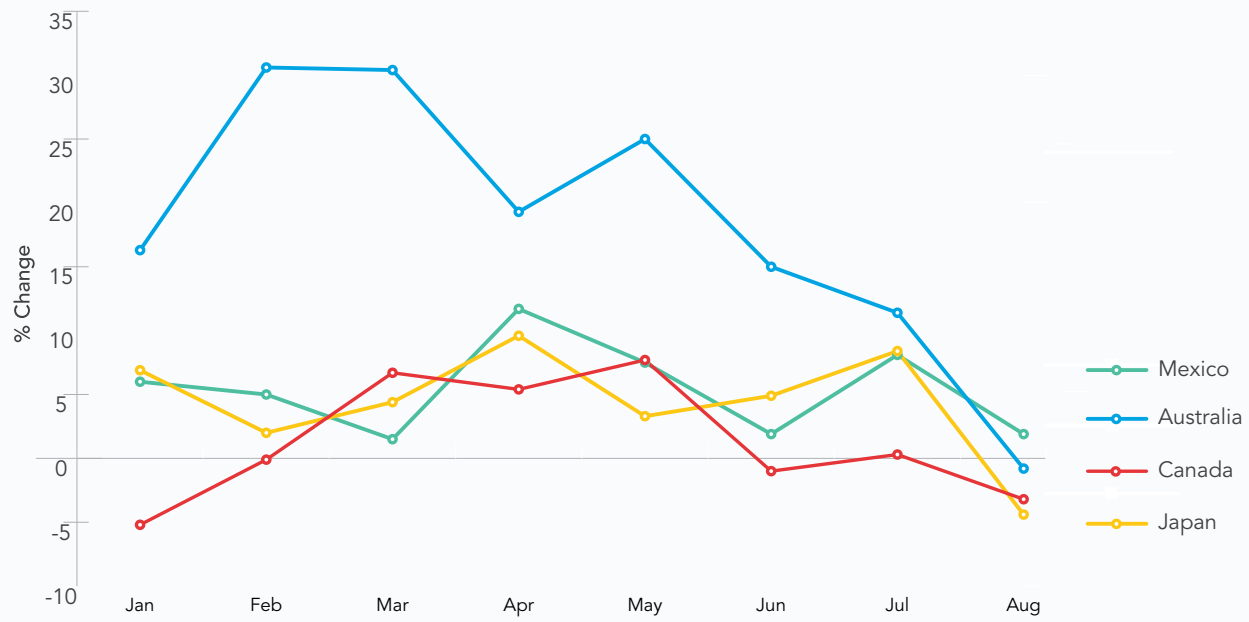
Canadian exports to China were growing at an annual pace of 11% between 2009 and 2018, with an accumulated net growth of 58.7% in the same years. This positive growth trend started on a consistent reversal beginning in February 2019, and while there was a small uptick this September, the trend continues to be consistent, as Figure 3 shows.

FIGURE 3
Logarithm trend line for Canadian exports to China
Value CA$



Japan is facing a similar challenge, since its exports have not fared particularly well with the United States either, as Figure 4 illustrates. It is possible that this trend will reverse itself once the recently negotiated U.S.-Japan free trade agreement enters into force. Still, it is too early to see any changes. It is important to highlight that the situation in Australia is reversed: while its exports to China are booming, trade growth with the United States has consistently slowed down since May 2019, as Figure 4 shows.

FIGURE 4
Major CPTPP partners export growth to U.S. Jan - Aug 2019



Source: Japanese Ministry of Finance, 2019; Australian Bureau of Statistics, 2019; Mexico Secretaría de Economía, 2019[14]

The U.S.-China trade war has definitely had an impact on how the CPTPP area evolved in 2019. The analysis below breaks down the basic observable trends for Canada.

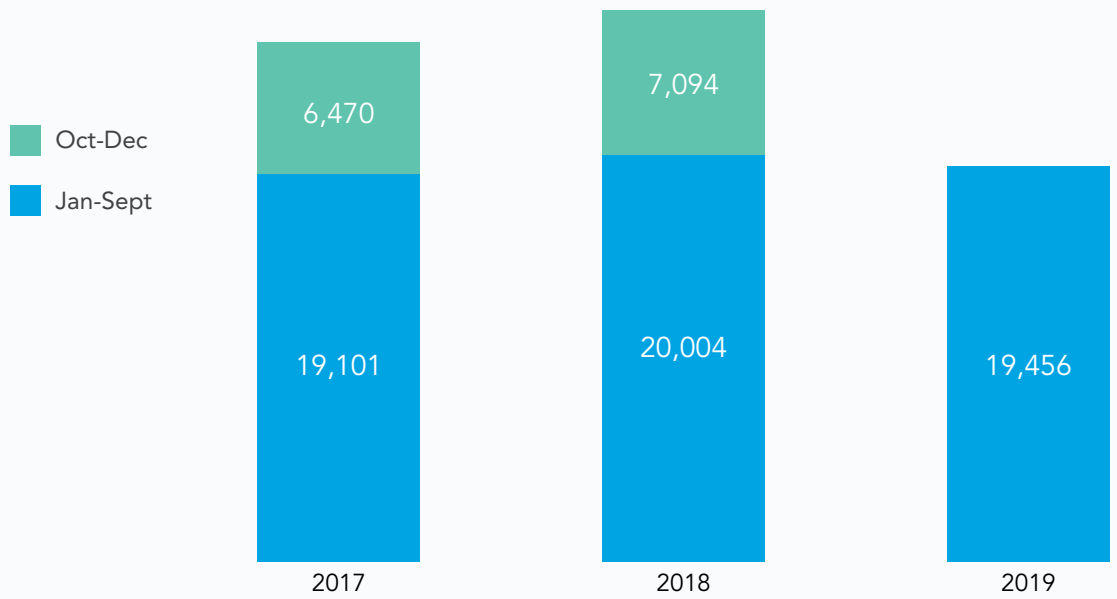
CANADA'S PARTICIPATION IN THE CPTPP: BASIC TRENDS

The landscape of Canadian trade is changing

Source: Photo by Solidago on Getty Images

The Tracker monitors changes in Canadian trade to identify opportunities and challenges across export sectors.[1]

FIGURE 5
Canada's exports to CPTPP countries, 2017–2019
Value CA$ million

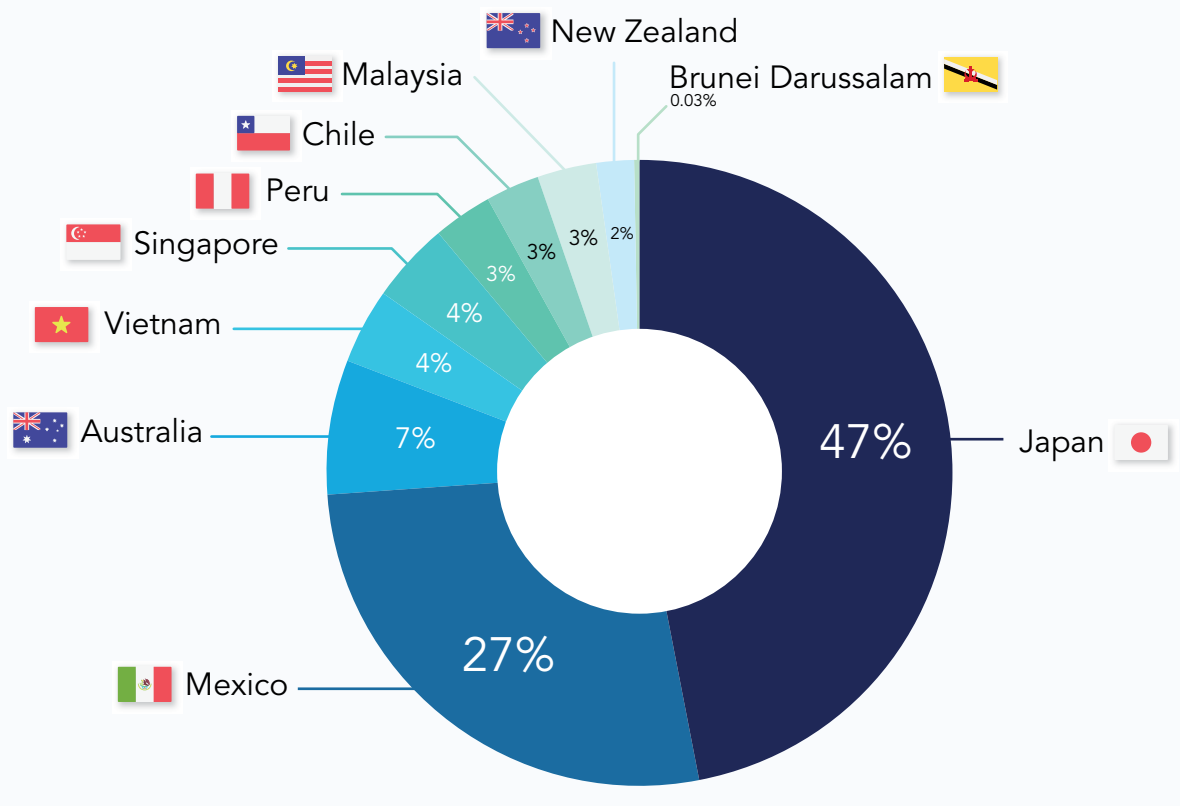


1 As it follows patterns of trade over the years it does not yet have the capacity to assess a direct causal effect between the CPTPP and trade behaviour.

Between January and September 2019, Canada has exported a total of C$19B worth of goods to CPTPP member economies. But compared with the same period in 2018, exports have not increased. As seen in Figure 5, Canada's domestic exports to these countries in the first nine months of 2019 have instead declined by 3%, or C$539M, in comparison to the same period in the previous year. While it remains too early to tell whether the decline is a reflection of a general trend within the larger context of the trade war, or whether it is due to a combination of factors, including the relocation of global value chains, the drop in exports to CPTPP countries is countered by trade gains in markets outside the bloc. From January to September 2019, Canada's total exports to the world increased by 1.2%, or C$4B, from the same period in 2018, while the overall percentage of Canada's exports to CPTPP countries dropped from 4.97% to 4.78%. In sum, export increases to the CPTPP have yet to materialize.

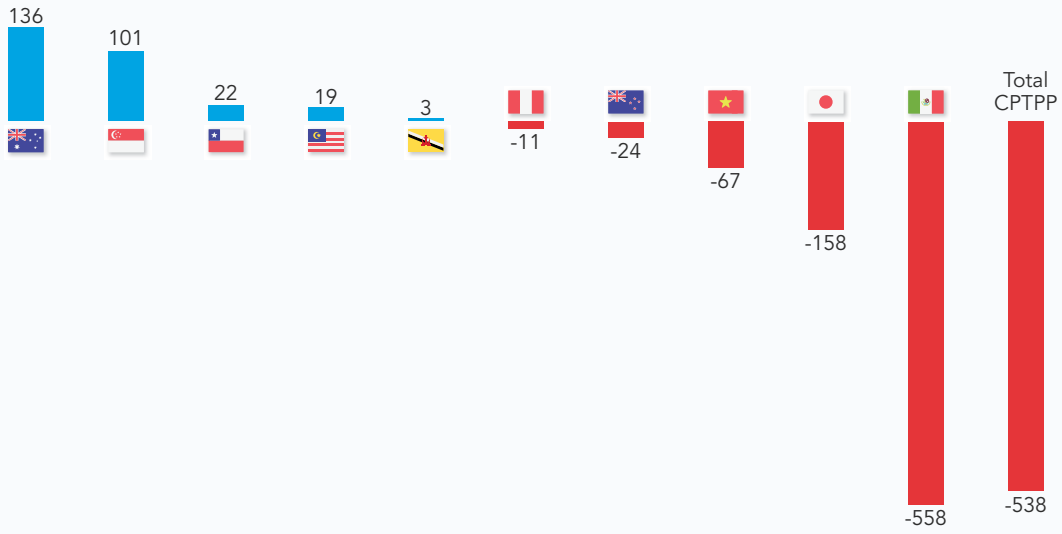
The breakdown of the main export destinations featured in Figure 6 shows the size of each market as it comprises Canadian exports.

FIGURE 6
Breakdown of Canada's exports to CPTPP countries, 2019



Canada's exports to CPTPP countries are highly concentrated in Japan, Mexico, and Australia, which together absorb about 82% of Canada's total CPTPP exports. As of September 2019, Canada has exported over C$16B worth of products to these three countries alone, while it exported about C$4B to the remaining seven CPTPP countries. The importance of Canada's exports to CPTPP countries corresponds roughly to the size of their respective economies. The larger the economy, the greater its purchasing power in international trade. However, the distribution of Canadian exports might change going forward. The economies of countries like Malaysia and Vietnam are developing rapidly, and after the CPTPP entered into force these countries became the fastest-growing consumers of Canadian exports. If this trend continues, these countries could become important destinations for Canadian goods and services.

FIGURE 7
Gains and setbacks in Canada's exports to CPTPP countries, Jan–Sep, 2018–2019
Value CA$ Million

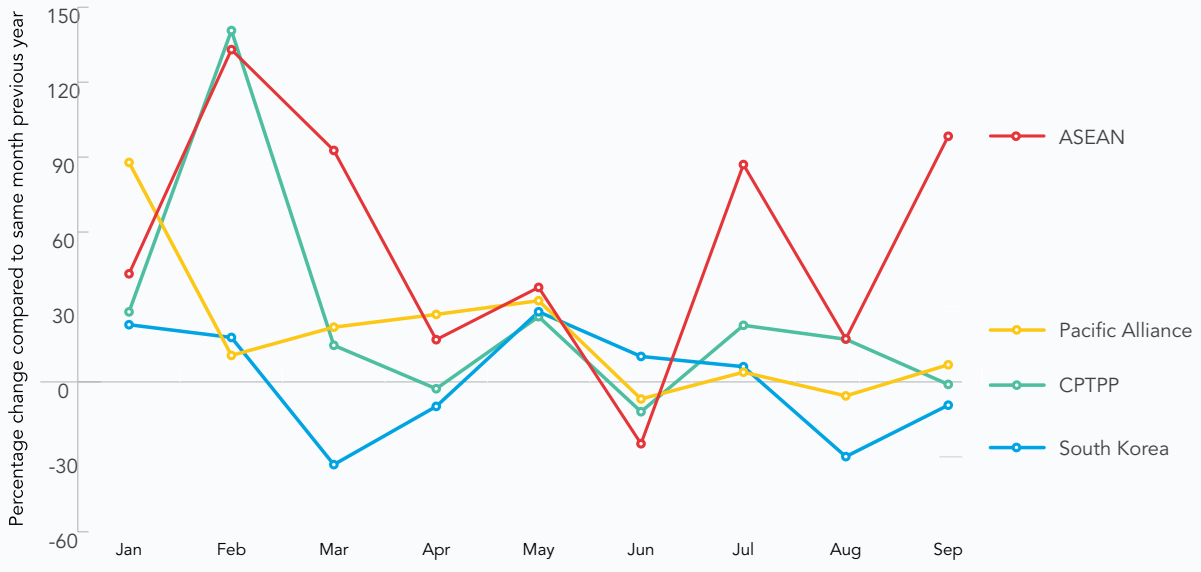


As Figure 7 demonstrates, Canadian exports have seen growth in five of the 10 markets and a decline in the other half. Comparing the first nine months of 2019 with the same period last year, Canadian exports to Australia have increased by 11%, or C$136M. However, the success in the Australian market could not offset the decline in exports to Japan and Mexico. From January to September 2019, Canadian exports to Japan dropped by C$158M, a 2% decrease from the first nine months of 2018. Canadian exports to Mexico over the same period dropped more steeply – a 9%, or C$558M, decrease – compared with the first nine months of 2018. In sum, Australia is the only large CPTPP economy where Canadian exports increased.

With the exception of Vietnam, New Zealand, and Peru, Canada's exports have increased in the smaller markets of the CPTPP. Exports to Singapore, in particular, grew exponentially. Between January and September 2019, Canada exported close to C$685M worth of products to Singapore, a C$101M increase from the same period in 2018. The strong growth of Canadian exports to Singapore makes the country the second-fastest-growing market in 2019, after Australia.

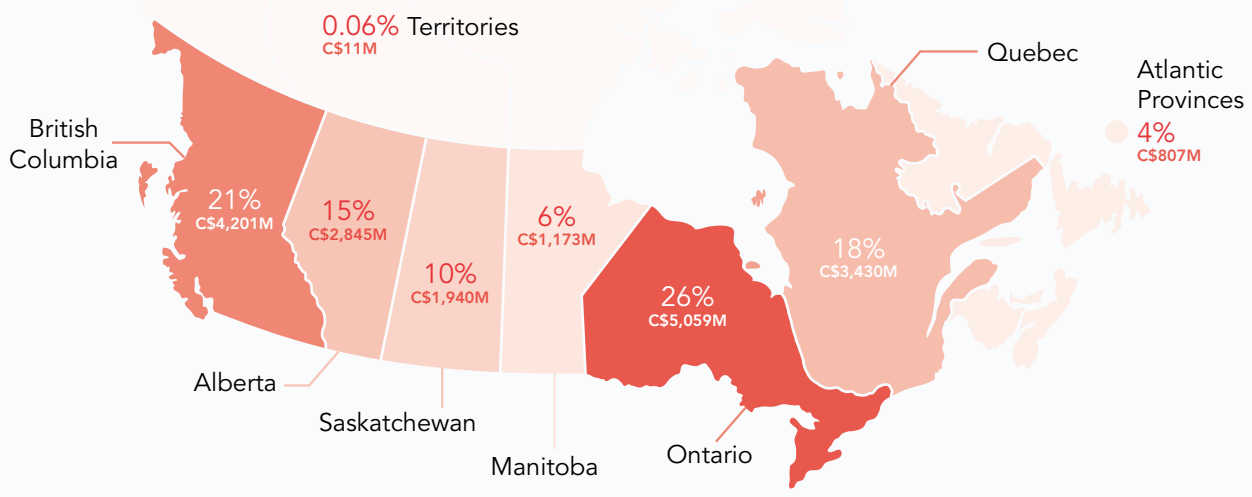
It is also useful to compare Canada's exports to the CPTPP area with other trade partnerships, especially the ones Canada is contemplating an FTA with. Figure 8 illustrates how the CPTPP export growth is not significantly higher compared to other free trade areas of the Pacific. The Association of Southeast Asian Nations (ASEAN) shows the strongest growth for Canadian exports. In the case of ASEAN, four of the 10 country members (Brunei Darussalam, Malaysia, Singapore, and Vietnam) are also part of the CPTPP, so higher growth is driven by non-members. Canadian exports to the Pacific Alliance – which comprises Chile, Peru, Mexico, and Columbia, with only the latter not a CPTPP member – presents the slowest growth rate among the three. The chart also shows that the South Korea's FTA with Canada has not significantly boosted Canadian exports to South Korea.

FIGURE 8
Canada's export growth to CPTPP countries compared to ASEAN, South Korea, and the Pacific Alliance



Provincial Breakdown of Canada's CPTPP Engagement

FIGURE 9
Share of Canada's CPTPP exports by province to date



The provincial distribution of Canada's CPTPP exports is relatively diversified. The top four provinces exporting to CPTPP members are Ontario, British Columbia, Quebec, and Alberta making up for 64% of Canada's total CPTPP exports. While Ontario remains the largest exporting province to CPTPP countries, with over C$4B worth of exports by September 2019, British Columbia, Quebec, and Alberta's CPTPP exports all exceeded C$2.8B.

FIGURE 10
Gains and setbacks in Canada's exports to CPTPP countries by province, Jan–Sep, 2018–2019
Value CA$ Million

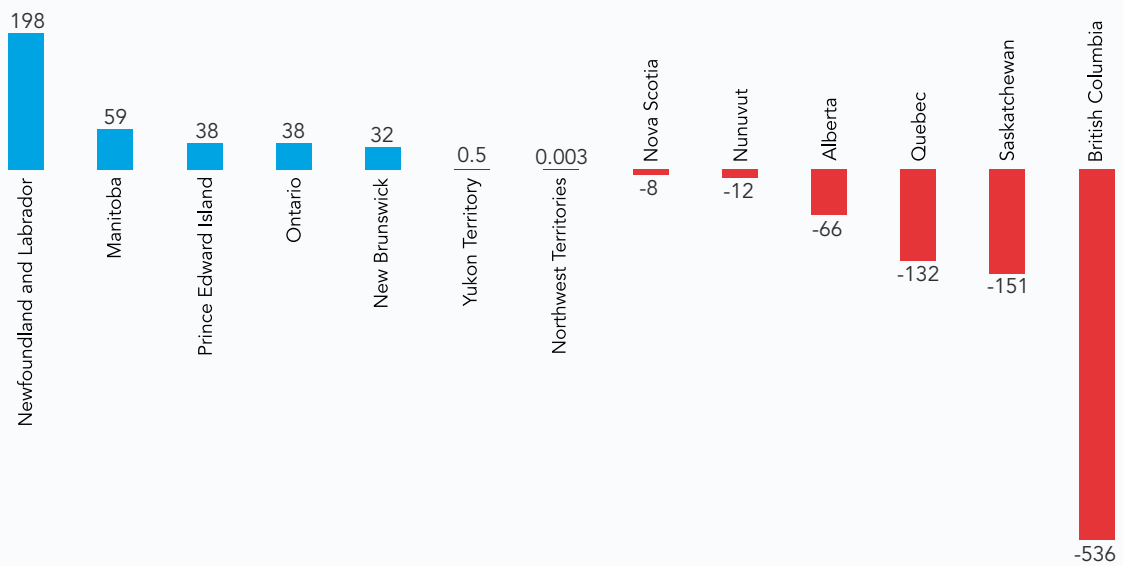


Figure 10 shows that three of Canada's four most economically powerful provinces, British Columbia, Quebec, and Alberta, have experienced setbacks in their CPTPP exports in 2019. British Columbia's exports sustained the biggest losses with a decline of close to C$536M (11%) when comparing the first nine months of 2019 to the same period of 2018. Saskatchewan faced the second-largest decrease. Quebec and Alberta's CPTPP exports sustained relatively lighter losses with drops of C$132M and C$66M, respectively. Ontario remains the only province among the top four to have increased exports to the CPTPP. Comparing the January-to-September period of 2019 to that of 2018, Ontario's exports to CPTPP markets increased by C$38M.

Six of the other eight provinces have also increased their exports to CPTPP countries, in order of value: Newfoundland and Labrador, Manitoba, New Brunswick, Prince Edward Island, Nunavut, and Yukon. Together, these six provinces and territories exported an additional C$328M in the first nine months of 2019. Newfoundland and Labrador, in particular, made the largest inroad, as the province's exports to CPTPP countries have gone up by C$198M.

SECTORS THAT ARE GROWING AND DECLINING

This section breaks down seasonal trends from each month – from January to September – to assess the extent of changes registered after the CPTPP entered into effect across the 21 sections and their product categories.

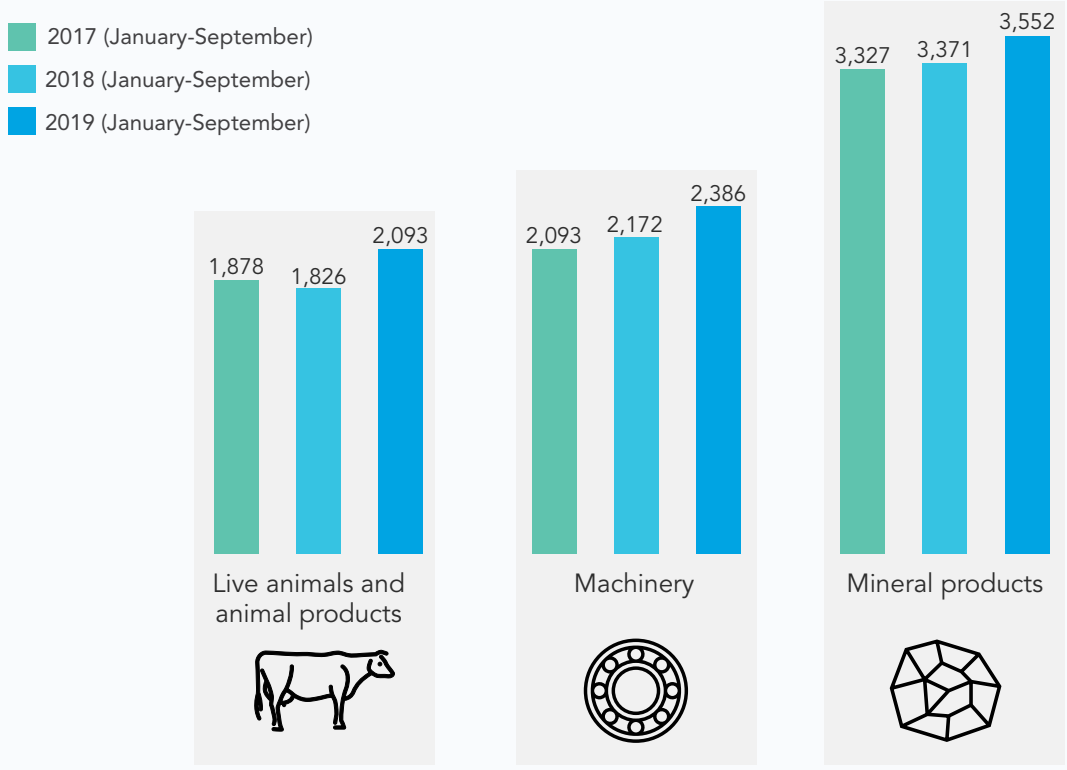
Growing

Canadian exports grew in 12 of the 21 sections coded by the international trade system; nine sections experienced a decline. On average, the most successful sections experienced a growth rate of around 15%, compared with a 24% average drop for the ones losing ground. The Tracker highlights the three most successful sectors of the economy since 2017. The results are shown in Figure 11.

Canadian exports in live animal and animal products experienced a recent increase

Source: Photo by PamWalker68 on iStock

FIGURE 11
Top three fastest-growing sectors in dollar value 2018–2019
Value CA$ million



Comparing January to September 2019 to the same period in 2018, we see that exports in the live animal and animal products category experienced the largest increase. Canada has exported close to C$2.1B of animal products to CPTPP countries, a 15% increase from 2018, even exceeding the 2017 level by C$215M. Japan, the largest export destination for Canadian animal products within the CPTPP, is the main driver behind the boost, accounting for C$207M of the C$266M net increase in this sector. Six other trade partners – Mexico, Vietnam, Singapore, Malaysia, Chile, and New Zealand – have also substantially increased imports of Canadian animal products and account for most of the remaining C$60M.

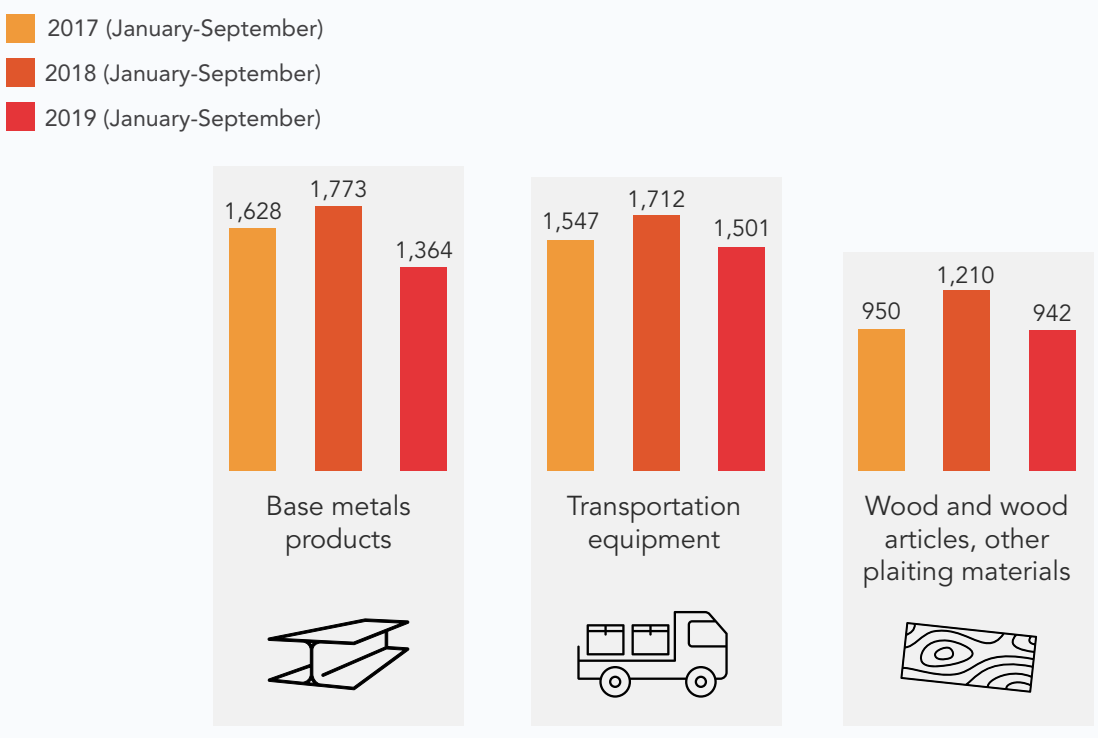
Exports of machinery and mechanical, electrical, and electronic appliances have also grown in 2019, jumping from C$2,171M to C$2,386M in 2019, representing a 10% increase. Machinery exports to Australia, in particular, have grown the most among CPTPP countries. In comparison to January to September in the previous year, machinery exports to Australia increased by close to C$92M this year, exceeding 2017's exports in the same period by C$42M. Besides Australia, six other countries – Malaysia, Singapore, Japan, New Zealand, Chile, and Mexico – also increased their imports of Canadian

machinery.

Mineral products, which made up 18% of Canada's total CPTPP exports for the first nine months of 2019, is the third-most-dynamic sector in dollar value in 2019. Comparing the first nine months of 2019 to that of 2018, Canada's overall exports in that category increased by C$182M. Japan, which has been the primary destination for Canadian mineral exports, has been the key driver in this year's increase, pushing Canadian exports up by C$260M from the previous year, an increase that was offset by losses in other economies. Peru is another noticeably growing export partner in this sector, as Canadian mineral

Declining

FIGURE 12
Top three declining sectors in dollar value, 2018–2019
Value CA$ million



exports to Peru jumped by 1,133% from C$3M in 2018's January to September to C$37M in the same period in 2019.

Base metals, which made up about 7% of Canada's total CPTPP exports in the first nine months of 2019, declined the most from 2018. Comparing the export data from January to September of 2019 to the same period in 2018, Canadian

Exports of base metals have seen a steep decline since 2017

Source: Photo by Warut1 on Getty Images

base metal exports to CPTPP countries have decreased by C$409M, representing a 23% drop. Base metal exports to Japan suffered the deepest dive, falling from C$637M in 2018's first nine months to C$309M in the same period of 2019. It is clearly linked to the decline in growth of the automotive sector in that country. In addition to Japan, Canadian exports of base metals to Mexico, Australia, Vietnam, and Singapore have also dropped steeply, by a combined C$112M.

Exports of wood products to CPTPP countries have also dropped sharply in the first nine months of 2019 compared with that period of 2018, from C$1.2B to C$942M, representing a 20% change. Of its 10 CPTPP partners, Canada saw its exports of wood products decrease in six countries: Japan, Singapore, Vietnam, Australia, New Zealand, and Peru. Exports to Japan and Australia, in particular, account for most of the decline in Canadian exports, as exports to these two countries were cut by a combined C$263M from the previous year.

Exports of transportation equipment have taken a significant hit this year. Comparing the first nine months of 2019 to the same period in 2018, exports in this product category were cut back by close to C$211M, a 12% drop. Exports to Mexico, the largest destination for transportation equipment, have dropped significantly, accounting for C$198M of the decrease. Four other CPTPP partners – Brunei Darussalam, Japan, Vietnam, and Australia – have also seen a decrease in Canadian exports in this product category. The four countries in total saw a drop of C$81M in the same period. However, the drop in exports in these markets was partly mitigated by a C$68M increase in exports to Malaysia, Singapore, Chile, New Zealand, and Peru.

CANADA AND GLOBAL VALUE CHAINS

International trade, investment, and innovation are increasingly organized in what are called global value chains (GVCs), a concept that describes how the various stages of the production process for value-added goods take place in different countries across the globe. Since the 1990s, companies have optimized their production by breaking down production lines through offshoring and outsourcing activities, choosing the country that offers the best technology, best trained labour force, or the best cost for their investment.[15] For these reasons, value-added manufacturing exports have become the main indicator of engagement in global production networks. The capacity to become and stay competitive exporting value-added goods is a strong indicator of a country's ability to innovate and lead its own production lines across the globe. Participation in GVC exports are deemed to have the strongest positive incentive in increasing productivity and improving export performance.

The Asia Pacific region is the most active when it comes to GVCs where foreign value-added goods are traded. A United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) 2018 report made clear that this is especially the case in the electronics and automotive sectors, where a whopping 70.6% of intermediate and 75.9% of final GVC goods, respectively, are centred in Asia. Intra-regional trade related to GVCs has been strengthening over the last five years.

According to ESCAP, the U.S.-China trade war has significantly affected GVCs. This is because the Asia Pacific concentrates 52.1% of GVC intermediate goods and 40.9% of GVC final goods, with most of this concentrated in China (47.7% and 36%, respectively).[16] ESCAP predicts that the U.S.-China trade war will

push value-added production lines to move to Southeast Asian countries, like Vietnam, and other less-developed countries.[17]

The implications for Canada are significant. Participation in GVC exports are deemed to have the strongest positive incentive in increasing productivity and improving export performance. As John Baldwin puts it, "Access to larger foreign markets allows exporting firms to exploit scale economies and learn about new technologies and products, and it increases their incentives to invest and innovate."[18]

If Baldwin's argument is correct, Canada has a unique opportunity to ramp up relationships to increase its participation in GVCs precisely because the U.S.-China trade war offers a unique opportunity to diversify Canadian GVC exports that were, until recently, extremely concentrated in the NAFTA (soon Canada-U.S.-Mexico Agreement, or CUSMA) region. Up until 2011, Canada's participation in GVCs as a percentage of total global trade was 28.0%, but within NAFTA, it was a whopping 68.2% in gross exports and 62.5% in final exports. Most of the value was going to the United States as of 2011, the latest year this estimate was available. [19,20]

The Government of Canada has studied export behaviour with other trade agreements like CETA and determined that entrepreneurs tend to claim tariff advantages mostly in value-added goods. This is where tariff savings are greater, because most primary products and raw materials already have very low tariffs under most favoured-nation clauses. However, the average tariff utilization in the case of CETA ranges between 24.9 to 36.4%.[21] If Canadian exporters manage to sustain and expand their export of goods for which they already have a comparative advantage, the CPTPP area presents a good opportunity to expand and create market niches, using them to leap-frog into expanding production lines in other sectors and countries in the Pacific.

That being so, Canada's decision makers will need to work extra hard to make this a reality. As discussed in the first section of this report, Canadian domestic value-added content in gross exports to Japan, for instance, is only 3.3% for GVC intermediate goods and 4.1% for GVC final goods of Japan's total with estimates of 2011.[22]

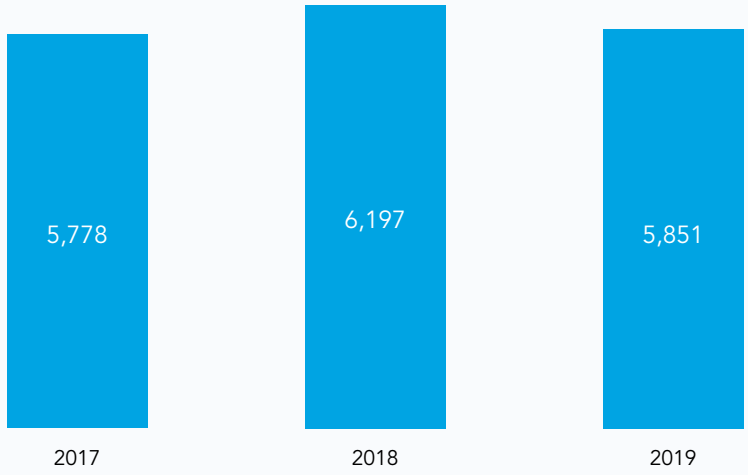
The extent to which Canadian value-added exports gain market share in the CPTPP market will determine how successful Canadian companies are at inserting themselves into the largest GVC market region. Learned experience from exporting paves the way for future export success, as recent studies made by Global Affairs Canada's Office of the Chief Economist attest.[23]

The following section shows the most successful exports of value-added manufacturing goods to the CPTPP area (motor vehicles, base metals, mining, and chemicals, in that order) and the sectors where Canada has lost market share in the past year.[24]

TREND FOR EXPORTS OF VALUE-ADDED GOODS

To monitor Canada's participation in GVCs, we tracked export performance of manufacturing value-added goods sections, ranging from HS 72, iron and steel, to HS 96, miscellaneous manufactured articles.[1] This narrow definition serves two purposes: One, it includes product categories that have a higher proportion of value-added components. Two, it assesses the impact of the CPTPP where tariff reductions have been more significant, and thus where participation in GVCs becomes more salient.

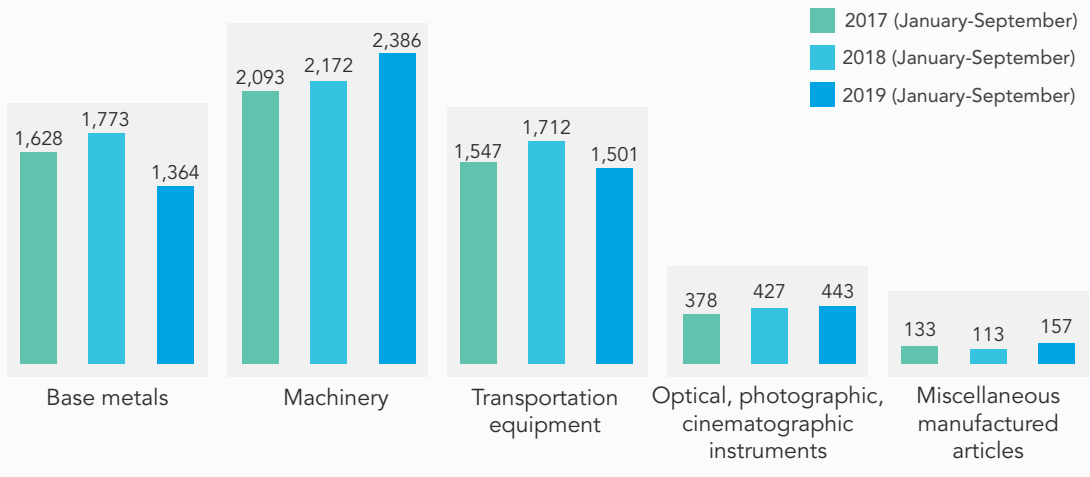
FIGURE 13
Canada's value-added goods exports to CPTPP countries, Jan–Sep of 2017–2019
Value CA$ million



With this definition in mind, Figure 13 shows that Canada's exports of value-added goods to CPTPP countries have dropped by more than C$346M, or 6%, from 2018 to 2019, while showing a slight increase from the same period in 2017.

1 This study does not include the HS 90 arms and ammunition category since it is under other export control regulations, such as the Export and Import Permits Act.

FIGURE 14
Canada's domestic exports of value-added goods to the CPTPP, Jan–Sep of 2017–2019
Value CA$ million



Three of the five two-digit HS categories within the sector (machinery; optical, photographic, and cinematographic instruments; and miscellaneous manufactured articles), added C$274M in exports in the first nine months of 2019 over that period in 2018. However, export growth remains insufficient to compensate for the steep decline (C$620M) in base metals and transportation equipment.

Growing

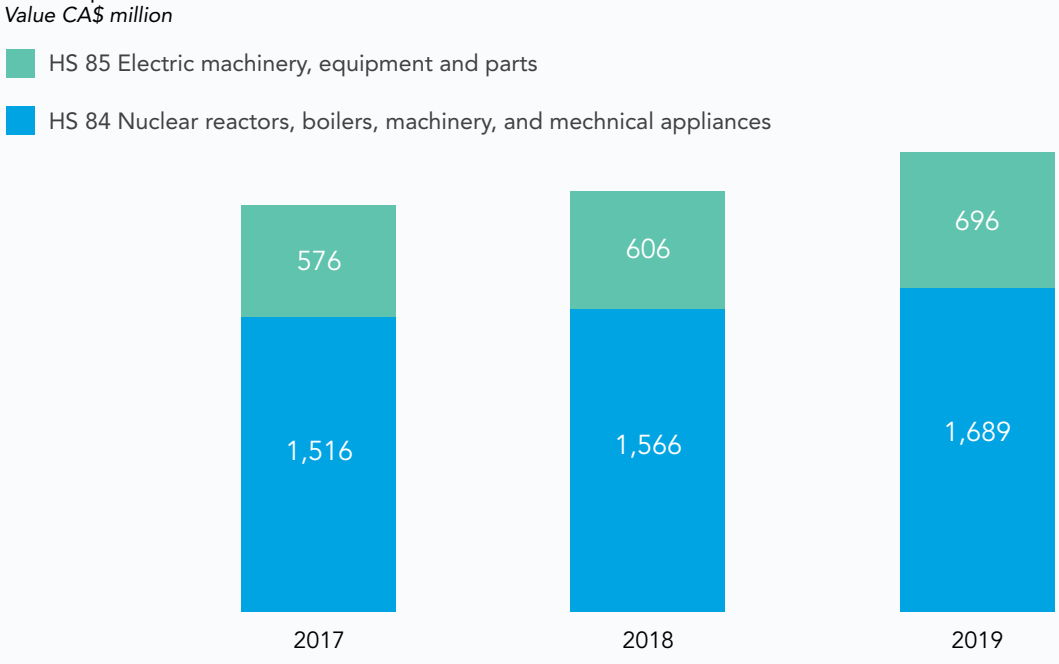
Machinery

Machinery is leading the growth in exports of value-added goods to CPTPP countries in 2019. From January 2018 to September 2019, Canada's machinery exports to CPTPP countries have increased by C$239M, representing a 10% surge. In the first nine months of this year, Canada has already exported C$2.3B worth of machinery products.

Source: Photo by Warut1 on Getty Images

Machinery leads the way for the export of value-added goods

FIGURE 15
Composition of Canadian machinery exports, to CPTPP countries by product category, Jan–Sep, 2017–2019
Value CA$ million



As Figure 15 illustrates, while Canada's HS 84 exports account for the majority of its machinery exports, both HS 84 and HS 85 exports have grown substantially in the last two years. In the first nine months of 2019, Canada's HS 84 exports to CPTPP countries increased by C$123M from the same period of the previous year, while HS 85 exports increased by C$90M.

Canada's machinery exports have grown in seven countries of the CPTPP. They experienced the highest growth in dollar value from the previous nine-month period in Australia, with a C$92M boost. In terms of percentage growth, New Zealand became the fastest-growing import market for Canadian machinery with a 25% jump from the previous nine-month period of 2018.

TABLE 2 | Canada's machinery export growth or decline by destination, January–September, 2018–2019

Country	Value change (Units in C$)	% change
Australia	91,898,802	22%
Singapore	62,982,819	20%
New Zealand	20,010,945	25%
Chile	12,166,562	11%
Japan	11,882,883	4%
Mexico	11,465,495	1%
Malaysia	10,985,267	23%
Peru	–104,617	– 0.1%
Brunei Darussalam	–361,322	–16%
Vietnam	–7,711,197	–19%
Total CPTPP	**213,215,637**	**10%**

Exports of machinery have traditionally been dominated by Ontario and Quebec. In 2019, however, Alberta outpaced both provinces in dollar value and percentage of export growth. From January to September of 2018 compared to the same period in 2019, Alberta's machinery exports to CPTPP countries were responsible for C$127M of the C$213M in exports of this product category. This represents a 132% increase in just one year. Specifically, Alberta's exports of nuclear equipment products (HS 84) to Australia have increased most notably, with C$59M in growth from 2018.

Quebec has also seen a major gain in its machinery exports in the first nine months of 2019, mainly nuclear equipment, with an increase of C$76M in its exports to CPTPP countries. Similar to Alberta, Australia became Quebec's fastest-growing export destination, as the country's imports of Quebec's HS 84 products grew by close to C$39M in that same year-over-year comparison.

TABLE 3 | Top two emerging provinces in machinery export growth, January–September of 2018–2019

Alberta		
	Value change (Units in C$)	% change
Net growth	**126,647,293**	**132%**
HS 84 nuclear reactors, boilers, machinery, and mechanical appliances	111,198,762	137%
HS 85 electrical machinery and equipment	15,448,531	107%
Top three emerging destinations for Alberta's HS 84 exports		
Australia	59,496,046	146%
Mexico	26,233,952	318%
New Zealand	14,231,039	566%

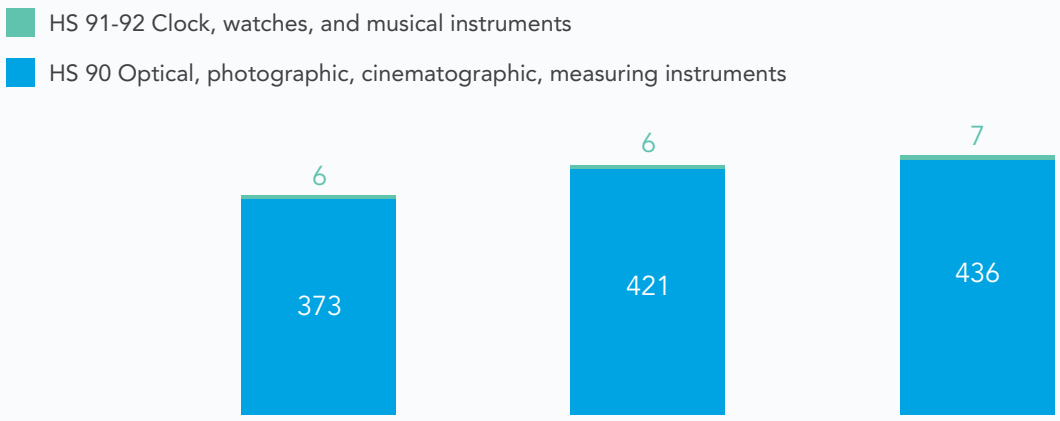
Quebec		
	Value change (Units in C$)	% change
Net growth	**76,052,552**	**16%**
HS 84 nuclear reactors, boilers, machinery, and mechanical appliances	61,878,381	17%
HS 85 electrical machinery and equipment	14,174,171	11%
Top three emerging destinations for Quebec's HS 84 export		
Australia	38,576,125	125%
Japan	18,684,331	35%
Peru	9,102,072	72%

The second product category where Canada has experienced significant growth is miscellaneous manufacturing products (HS categories 94 to 96). However, the size and diversity of products under these categories makes any deep dive challenging. This exemplifies the extent to which many Canadian value-added exports are scattered across small producers in niche sectors.

Optical, Photographic, Cinematographic, Measuring, and Musical Instruments

Canada's exports of optical, photographic, cinematographic, measuring, and musical instruments, although small in value of exports, is the third-fastest-growing product category after "miscellaneous." Canada's export to CPTPP countries in this product category has increased by 4% (C$16M), when data from January to September of 2018 is compared to the same period in 2019.

FIGURE 16
Composition of Canadian Optical, photographic, and cinematographic exports to CPTPP countries by product category, Jan–Sep, 2017–2019
Value CA$ million



Canada's exports of optical, photographic, cinematographic, measuring, and musical instruments exports are much more concentrated in the CPTPP area. The HS 90 product category accounts for C$15M of the C$16M growth observed between the first nine months of 2018 and the same period of 2019.

TABLE 4 | Canada's optical, photographic, measuring, and musical instrument export growth or decline by destination, Jan–Sep of 2018–2019

Country	Value change (Units in C$)	% change
Australia	13,934,652	20%
Chile	7,540,654	53%
Vietnam	4,945,047	113%
New Zealand	4,474,168	52%
Singapore	2,591,716	4%
Brunei Darussalam	−17,833	−37%
Peru	−29,475	−0.4%
Malaysia	−1,757,816	−9%
Mexico	−3,863,197	−7%
Japan	−11,953,701	−6%
Total CPTPP	**15,864,215**	**4%**

In terms of export destination, Canadian exports in this product category have gained ground in five of the 10 CPTPP partners, in order of value: Singapore, Vietnam, Chile, New Zealand, and Australia. However, gains in these five countries are substantial enough to offset the deficit incurred in the other five markets, creating a net gain of C$16M in exports within this product category. Australia, in particular, was instrumental in putting the numbers in the positive this year, as it imported C$14M more between January and September this year than during the same nine-month period in 2018.

When we disaggregate the gains by province, Ontario is leading the export of optical, photographic, measuring, and musical instruments, with an increase of around C$15M; Japan accounts for two-thirds of that increase, with an additional C$10M in purchases. However, gains in the Japanese market were partially offset by Ontario's lack of success in the Mexican market in the first nine months of 2019, with a C$9M drop from 2018's first nine months.

Optical and photographic equipment exports are seeing a sharp increase

Source: Photo by Markus Spiske on Unsplash

Trailing behind Ontario, British Columbia's export growth in this product category ranks second in dollar value. Comparing the first nine months of 2018 to the same period in 2019, British Columbia exported C$11M more than the previous year. Contrary to Canada's overall trend in this product category, where gains are concentrated in only four markets, British Columbia's export growth this year is more dispersed in terms of destinations, with increases seen across seven CPTPP markets. The most important market for the province's HS 90 exports in 2019 was Chile. The province increased its exports in this category by around C$4M.

TABLE 5 | Top two emerging provinces in optical, photographic, cinematographic, and measuring equipment export growth, Jan–Sep of 2018–2019

British Columbia		
	Value change (Units in C$)	% change
Net growth	**10,752,043**	**21%**
HS 90 optical, photographic, cinematographic, and measuring instruments	10,597,616	21%
Top three emerging destinations for British Columbia's optical, photographic, cinematographic, and measuring equipment exports		
Chile	3,988,524	96%
Mexico	3,913,199	60%
Australia	2,315,790	23%

Ontario		
	Value change (Units in C$)	% change
Net growth	**14,718,352**	**7%**
HS 90 optical, photographic, cinematographic, and measuring instruments	14,207,467	7%
Top three emerging destinations for Ontario's optical, photographic, cinematographic, and measuring equipment exports		
Japan	10,815,766	13%
Australia	4,993,769	16%
Vietnam	3,959,136	277%

Declining

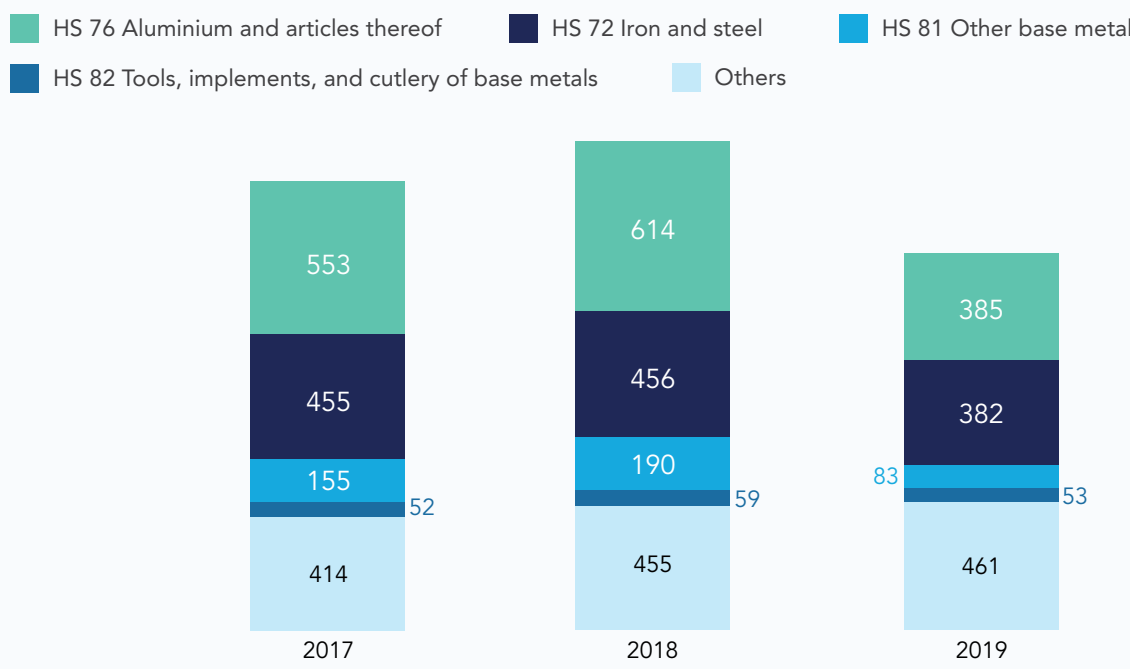
Base Metals

Base metal products experienced the steepest drop of all value-added goods when comparing the data from January to September of 2018 to that of 2019. As of September, Canada had only exported C$1.4B worth of base metal products to CPTPP countries in 2019. When compared to that nine-month period in 2019, exports dropped by more than C$409M, or a 23% decrease.

FIGURE 17

Composition of Canadian base metal exports to CPTPP countries by product category, 2017–2019

Value CA$ million



When disaggregated at the two-digit HS level, we observe a decline in exports in three subcategories of products (HS 72, iron and steel, HS 76, aluminum products, and HS 81, other base metals and articles thereof). Comparing the first nine months of data in 2018 to 2019, the export of these three product categories dropped by C$410M. The most significant drop is seen in the export of HS 76, aluminum products, as the export in this product category dropped from C$614M in the first nine months of 2018 to C$385M in the same period of 2019.

TABLE 6 | Canada's base metal export growth or decline by destination, Jan–Sep of 2018–2019

Country	Value change (Units in C$)	% change
Malaysia	14,205,361	25%
Peru	11,866,772	97%
New Zealand	3,568,843	27%
Chile	801,396	5%
Brunei Darussalam	172,807	1216%
Vietnam	−1,732,895	−7%
Singapore	−4,237,576	−14%
Australia	−6,894,884	−9%
Mexico	−98,725,538	−11%
Japan	−328,016,964	−51%
Total CPTPP	**−408,992,678**	**−23%**

Despite growth in exports of base metals in five of the 10 CPTPP markets, the significant drop in the Japanese market resulted in a net decrease in exports of base metal products. Canadian base metal exports to Japan have decreased by half from 2018's January-to-September period to 2019's – a drop of more than C$328M, which alone offset C$31M in gains in the other five markets. Other than Japan, Canadian base metal exports also dropped significantly in Mexico, Australia, Singapore, and Vietnam, and these four markets added another C$112M deficit to the base metal exports this year.

In terms of metal exports, British Columbia received the hardest blow among the provinces and territories. Comparing the first nine months of data in 2018 to the same period in 2019, British Columbia's base metal exports to CPTPP countries dropped about C$249M. While British Columbia's base metal exports gained ground in five of the 10 CPTPP countries, the province's C$249M drop in the Japanese market offset the gains from elsewhere. In particular, exports of HS 76 aluminum products to Japan account for C$248.9M of the C$248.6M drop.

TABLE 7 | Top two fastest declining provinces in base metal exports drop, Jan–Sep of 2018–2019

British Columbia		
	Value change (Units in C$)	% change
Net decrease	**–248,575,215**	**–70%**
HS 76 aluminum products	–248,946,558	–87%
HS 79 zinc products	–5,377,171	–49%
Top three declining destinations for British Columbia's base metal exports		
Japan	–249,259,293	–85%
Australia	–2,870,098	–18%
Mexico	–2,501,175	–36%

Alberta's base metal exports to CPTPP markets have dropped

Source: Photo by Albert Pego on iStock

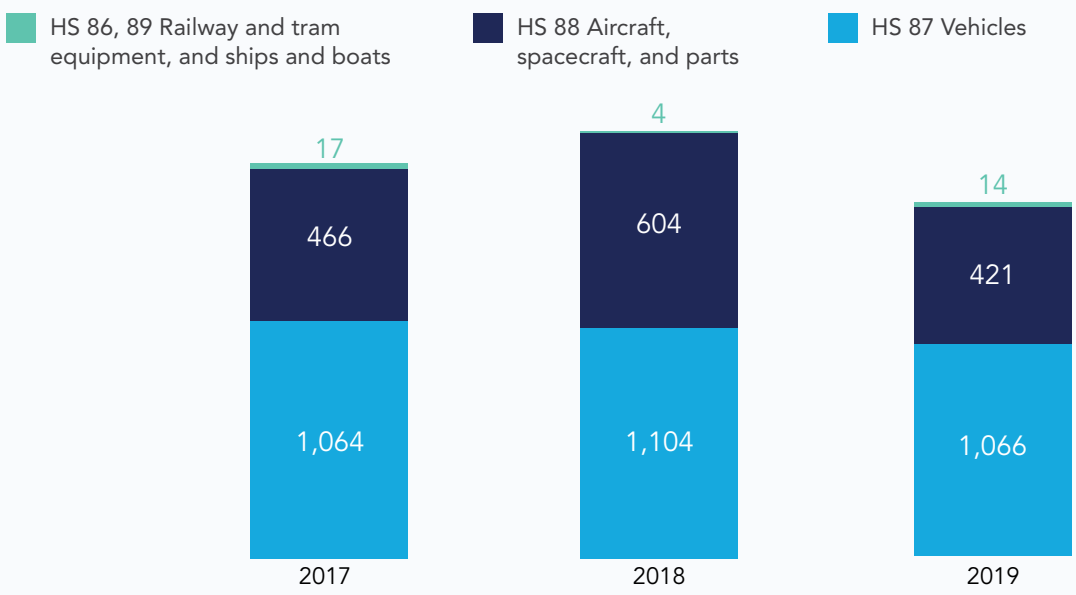
Alberta's base metal exports to CPTPP markets also dropped significantly: C$113M from January to September 2019 compared to the same period in 2018. Similar to the story in British Columbia, the most significant drop is seen in Alberta's base metal exports to Japan. Of the C$113M drop, Alberta's base metal exports to Japan account for more than C$100M, and much of the drop is driven by weak exports of HS 810520 – cobalt mattes and related products – to Japan.

Alberta		
	Value change (Units in C$)	% change
Net decrease	**–113,312,603**	**–46%**
HS 81 other base metal products	–106,113,208	–61%
HS 72 iron and steel	–11,127,953	–29%
Top three declining destinations for Alberta's base metal exports		
Japan	–100,339,682	–56%
Singapore	–5,673,886	–31%
Vietnam	–4,862,833	–44%

Vehicles, Aircraft, Vessels, and Associated Transportation Equipment

Exports of transportation equipment exports to CPTPP countries experienced the second-largest decline of all value-added goods from the first nine months of 2018 to the same period in 2019. As of September 2019, Canada had exported C$1.5B worth of transportation equipment to CPTPP countries. Comparing the data on the first nine months of 2018 to that of 2019, transportation equipment exports declined by more than C$211M this year, a 12% drop from the previous year. However, when compared to the 2017 data, this year's transportation equipment exports are only short by C$46M.

FIGURE 18
Composition of Canadian transportation equipment exports to CPTPP countries by product category, Jan–Sep, 2017–2019
Value CA$ million



While transportation equipment is composed of four product subcategories, which cover products from railway equipment to ships and vessels, two specific product categories – HS 87, vehicles, and HS 88, aircraft, spacecraft, and parts – drove much of the export decline. From 2018's January-to-September period to 2019's, Canada's aerospace transportation equipment exports to CPTPP countries decreased by C$183M, whereas vehicle exports dropped by close to C$38M.

TABLE 8 | Canada's transportation equipment export growth or decline by destination, Jan–Sep of 2018–2019

Country	Value change (Units in C$)	% change
Singapore	37,783,727	106%
Chile	20,672,634	89%
Peru	6,059,141	116%
Brunei Darussalam	1,861,840	16%
New Zealand	1,444,807	6%
Malaysia	−59,562	−88%
Vietnam	−20,600,076	−12%
Japan	−20,698,773	−60%
Australia	−39,617,654	−24%
Mexico	−198,033,528	−16%
Total CPTPP	**−211,187,444**	**−12%**

The nine-month comparison between 2018 and 2019 shows that Canada's exports of transportation equipment declined in five of the 10 CPTPP markets. The most significant drop is driven by decreased sales to the Mexican market. From 2018 to 2019, Canadian transportation equipment exports to Mexico decreased by 16%, accounting for C$198M of the C$211M drop in the period under analysis. Aside from Mexico, exports to Australia, Japan, Vietnam, and Brunei Darussalam have also experienced setbacks, as declining by a combined C$81M between January to September 2018 and the same period of 2019.

Quebec's transportation equipment exports sustained the steepest drop in dollar value this year among the provinces. From January to September of 2018 to the same period of 2019, Quebec's exports in this product category decreased by C$211M, a 12% drop. Quebec's exports of transportation equipment dropped steeply in eight of the 10 CPTPP partners. With a C$105M decrease, Quebec's exports to Mexico have faced the most significant drop. The decline is mainly driven by weak exports under HS 88, aircraft, spacecraft, and parts, pulling down this year's exports by C$211M.

While Ontario is performing better in the transportation equipment category than Quebec, the province's exports in this product category have contracted by C$73M when comparing the first nine months of 2018 to the same period of 2019. Similar to Quebec, Ontario's exports have decreased most in the Mexican market, dropping C$93M from the previous year. HS 87, vehicles, caused much of Ontario's export shortfall in Mexico, as vehicle exports to the country dropped by more than C$85M.

TABLE 9 | Top two fastest declining provinces in transportation equipment exports 2018–2019

Quebec		
	Value change (Units in C$)	% change
Net decrease	**–170,010,619**	**–27%**
HS 88 aircraft, spacecraft, and parts	–210,641,205	–41%
Top three declining destinations for Quebec's transport equipment exports		
Mexico	–105,200,229	–30%
Australia	–35,925,637	–15%
Japan	–17,864,691	–36%

Ontario		
	Value change (Units in C$)	% change
Net decrease	**–72,868,465**	**–7%**
HS 87 vehicles other than railway or tramway rolling-stock	–85,145,679	–9%
Top three declining destinations for Ontario's transport equipment exports		
Mexico	–92,586,544	–10%
Peru	–3,327,642	–57%
Japan	–2,781,496	–7%

WHAT ABOUT THE IMPORTS?

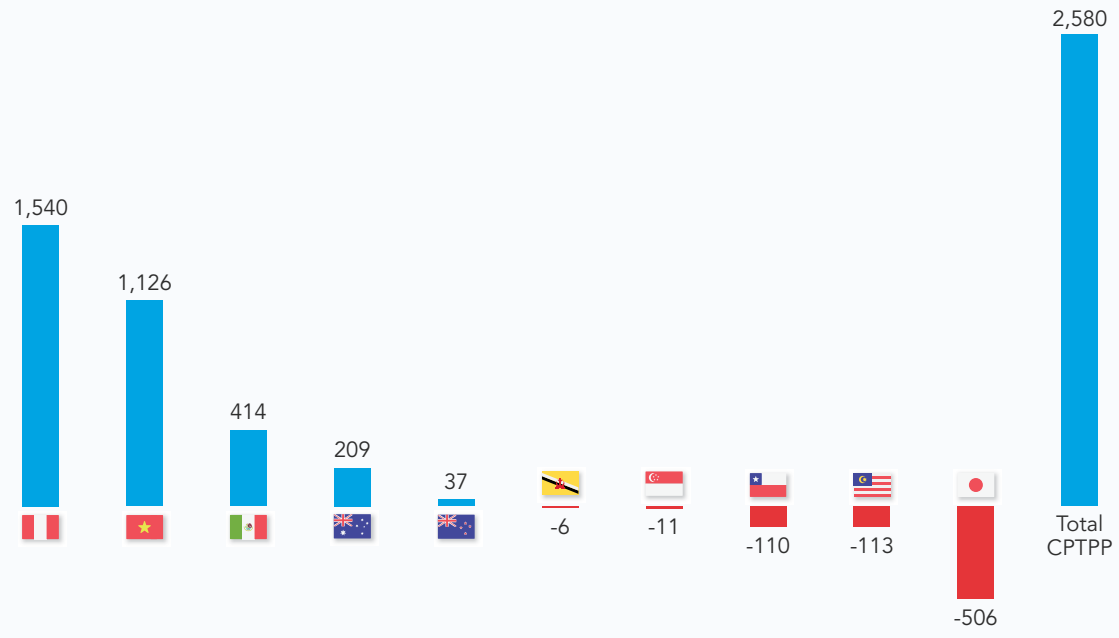
Canada imports from the CPTPP area grew faster than its exports to it. The readjustment of trade patterns is something to expect in the first years after a free trade agreement enters into force. For this reason, it is important to track the evolution of imports to have a full picture of trade relations within the CPTPP area, since export and import relations are usually complementary and – in a world of global value chains – many import components are re-exported or processed to be further integrated into international production lines. Imports are also key to identifying ways to build production networks across the Asia Pacific, where to add value, and where to better promote Canadian innovation. Value-added manufacturing continues to be the main import category, with Canada mostly exporting primary products to the CPTPP area.

TABLE 10 | Summary of Canadian imports from the CPTPP area

(Jan – Sep) Year	Value imported *(C$)*	2017–2018 change	2018–2019 change
2017	51,546,510,438	**1.4%** C$736M	
2018	52,282,148,021		**4.9%** C$2,580M
2019	54,862,374,369		

Canadian imports from CPTPP countries have increased in the last two years, as Table 10 shows. Canada imported nearly C$55B from CPTPP countries from January to September 2019. Canadian imports increased by 4.9%, or C$2.6B, from the same period in 2018. The rate of growth of imports more than doubled between 2018 and 2019 compared to the increase registered between 2017 and 2018. Notwithstanding, it is too early to assess whether this trend will continue.

FIGURE 19
Increase or decrease of Canadian CPTPP imports by country, Jan–Sep, 2018–2019
Value CA$ million

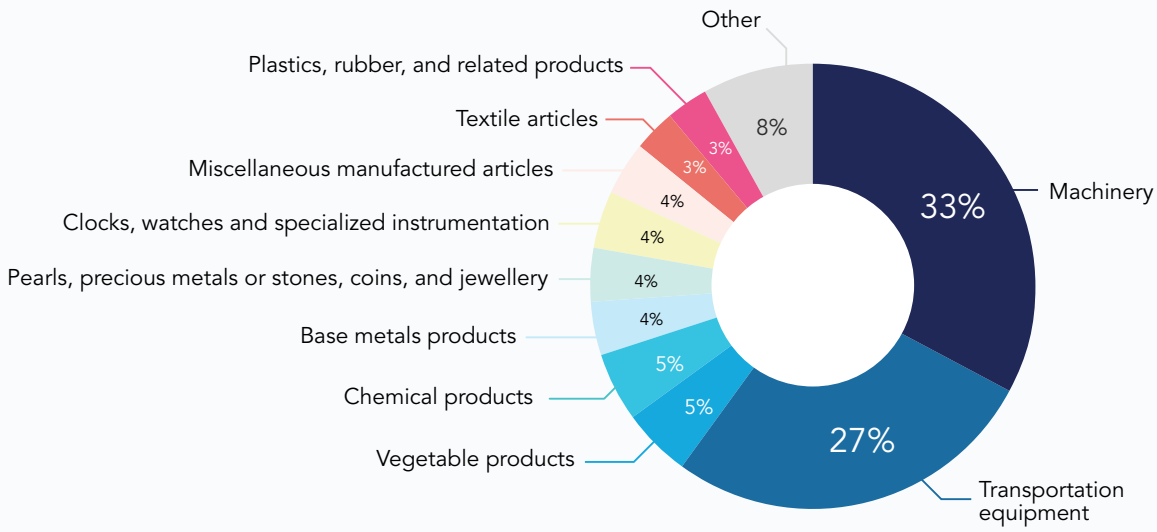


Of the five countries from which Canada has been importing more products, Peru has seen the biggest increase so far. According to the latest data, Canada imported C$2.6B from Peru in the first nine months of 2019, making Peru the fourth-largest source of products for Canada among CPTPP countries. Comparing the import data of January to September in 2018 to the same period in 2019, Canadian imports from Peru increased by C$1.5B, or 151%. The surge in imports from Peru alone is sufficient to offset all the import reductions from Brunei Darussalam, Singapore, Chile, Malaysia, and Japan combined.

Vietnam has become the third-largest import partner of Canada among the CPTPP countries, supplying a total of C$5.1B worth of goods in the first nine months of 2019. Canadian imports from Vietnam increased by C$1.1B, or 29%, compared to the same period in 2018.

However, Canadian imports from five CPTPP countries have shrunk this year. On average, imports from these countries have been cut by C$149M when comparing the first nine months of 2019 to the same period in 2018. Imports from Japan showed the largest drop, C$506M. This is the second year in a row that imports from Japan have decreased.

FIGURE 20
Composition of Canadian imports by product category, 2019



Source: Photo by Garett Mizunaka on Unsplash

Canada has imported almost C$18B of machinery products from CPTPP countries

The composition of imports is better illustrated by Figure 20. Canada's largest import category from CPTPP countries was machinery products. From January to September 2019, Canada imported close to C$18B in machinery products from this trade area. Mexico and Japan account for C$16B of those imports. About 55% of Canadian machinery imports in the first nine months of this year came from Mexico. Japan accounts for another 26%, while the other eight countries share the remaining 19% of Canadian machinery imports.

Vehicles, aircraft, vessels, and other transportation equipment are another significant segment of Canadian imports from CPTPP countries. As of September, Canada had imported close to C$15B worth in 2019. Similar to machinery imports, Mexico and Japan supply most of Canada's transportation imports. In the first nine months of 2019, Canada imported C$9.7B and C$4.9B worth of vehicles from Mexico and Japan, respectively, which represents 99% of Canadian vehicle imports.

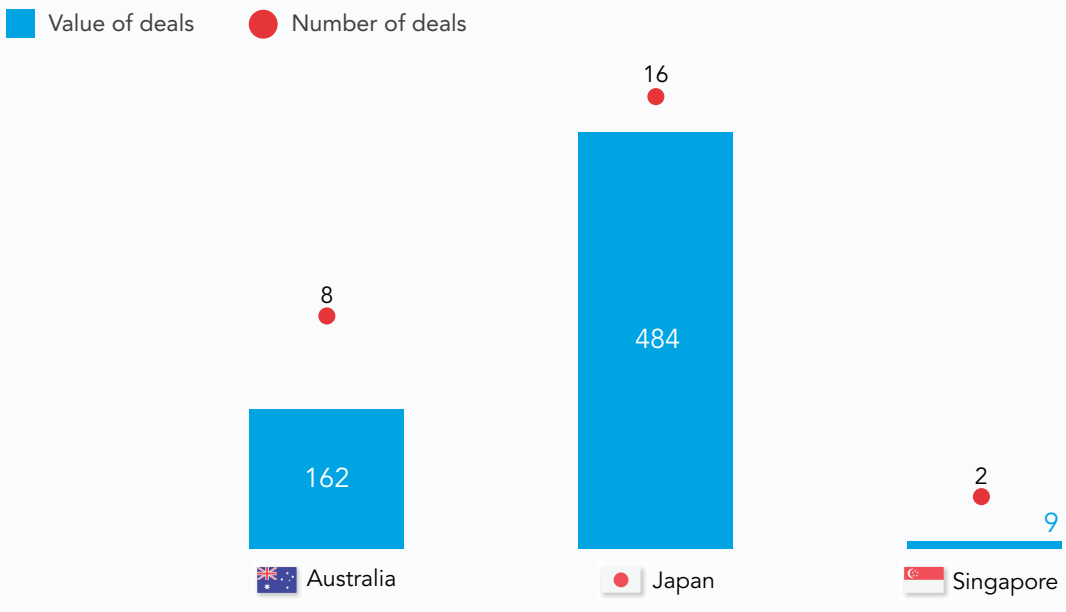
INVESTMENT TRENDS AFTER THE CPTPP

One of the areas that defines success for any trade agreement is the rapid increase in foreign direct investment. Research on trade liberalization has consistently asserted the capacity of FTAs to improve investors' confidence through enhanced investment protection clauses and expanded market access. APF Canada's Investment Monitor tracked these assumptions, comparing the historical record of investment between Canada and CPTPP country members. For now, only greenfield investments are presented. A more additional analysis of the year will appear in *APF Canada's 2020 Investment Monitor Annual Report*.

CPTPP countries investing in Canada

In the first half of 2019, only two CPTPP countries made greenfield investments in Canada: Japan and Australia. In total, $375M was invested in 19 recorded deals.

FIGURE 21
Investment flows into Canada 2019
Value CA$ million



The long-term trend of Canada attracting investment from CPTPP countries has stabilized in the last five years with slight bursts of cyclical activity. Japan made a significant investment in 2018 that compensated for a long period of stagnation. Japan provided fresh capital for British Columbia's LNG project, adding $6B into the multinational pool of investors.

FIGURE 22(a)
Top 3 Source Countries for Greenfield Investment Flow into Canada
(Jan 2014 - Jun 2019)
Value CA$ million

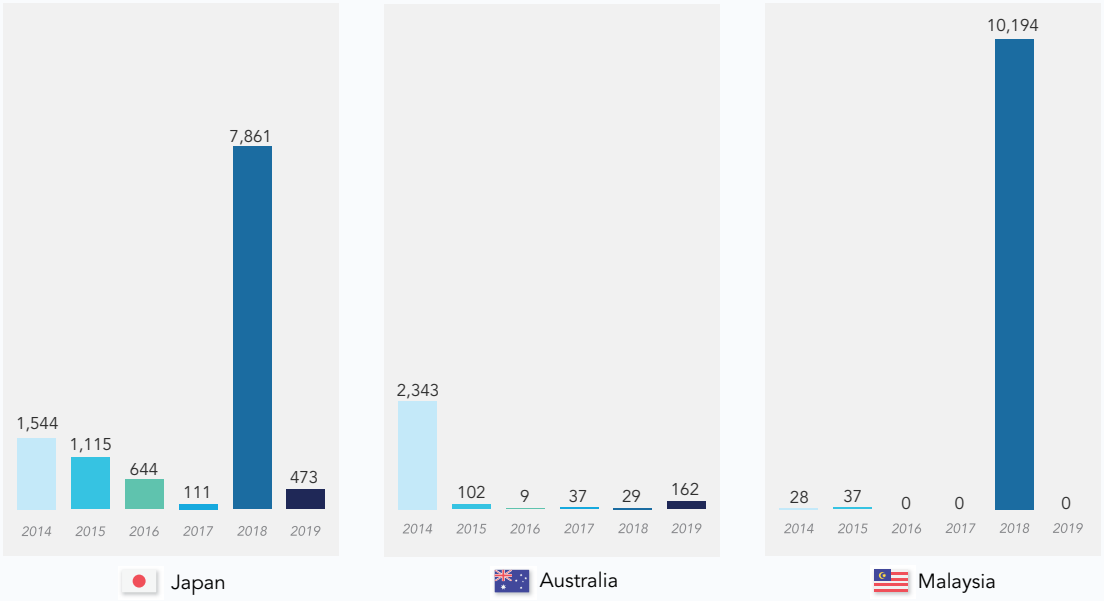
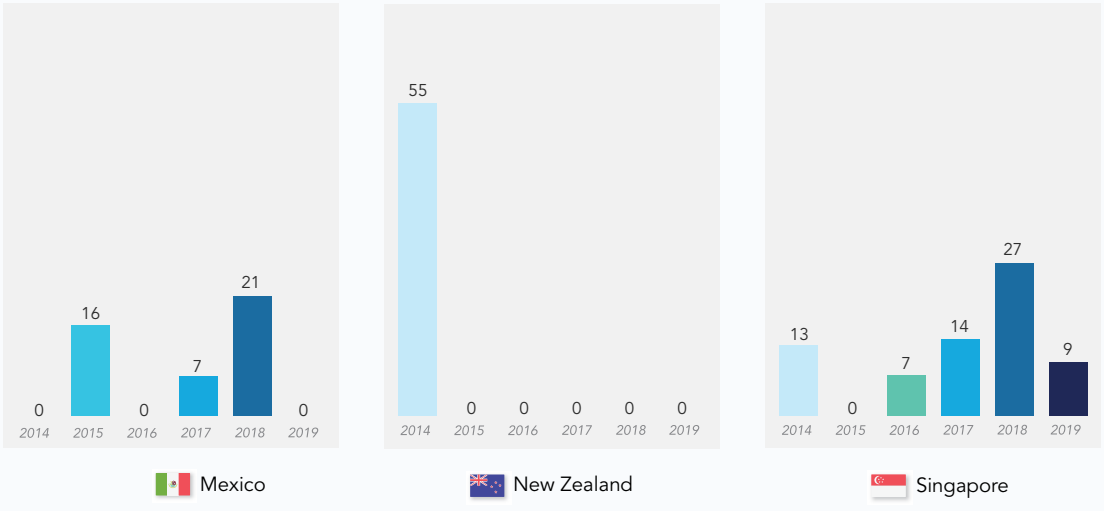


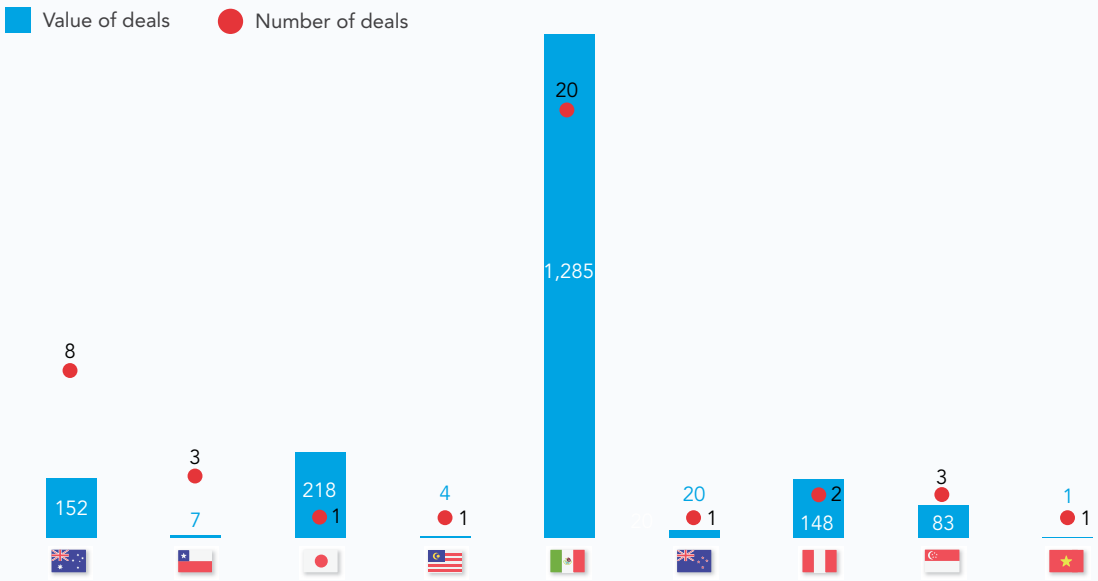
FIGURE 22(b)
Other Source Countries for Greenfield Investment Flow into Canada
(Jan 2014 - Jun 2019)
Value CA$ million



Canada investing in the CPTPP area

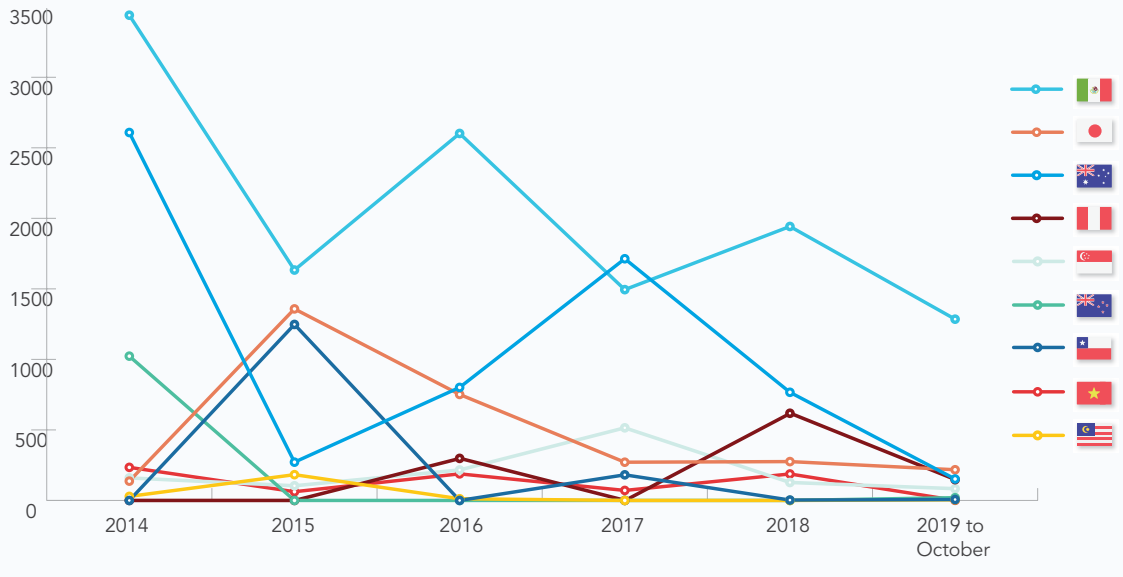
Although the existence of a new FTA is not in itself a trigger to export or invest, research has demonstrated that it improves investors' confidence. FTAs enhance the rule of law for investors since it usually contains a chapter on investment protection that reduces risks by securing an environment of clear rules. The data shows that Canada was ready to make significant investments within the CPTPP region. In the first two quarters of 2019, Canada invested C$807M in eight CPTPP members, as Figure 23 shows.

FIGURE 23
Canadian investment in the CPTPP in 2019
Value CA$ million



The majority of investments were made in energy and mining, sectors that have traditionally not depended on FTAs' protective measures. Unsurprisingly, Mexico, Australia, and Peru received the largest amount of Canadian investments.

FIGURE 24
Trends in Canadian investment flows in the last five years
Value CA$ million



We should not forget that Canada's outward investment in the CPTPP area has a long and cyclical history, usually tied to international commodity prices. So, it is still too early to say if investment is going to diversify into areas connecting to its innovation champions, the superclusters. The general trends of how investment has fluctuated in the last three years is shown in Figure 24.

CONCLUSION

The CPTPP entered into its first year against the backdrop of a U.S.-China trade war and the global economic slowdown that ensued. Despite the gains in export value in the first nine months of 2019, our CPTPP Trade Tracker Report shows that the protracted conflict is impeding CPTPP economies, including Canada, in maximizing the benefits of tariff reductions in the new commercial partnership. For instance, significant export growth to Japan has not materialized as earlier forecasts of the CPTPP projected. The fastest-growing markets for Canadian export sectors in 2019 have been Australia, Peru, Singapore, Vietnam, and Chile. The leading categories in export value in 2019 have been live animals and animal products, machinery, and mineral products, in that order.

This study also shows that despite the significant investments in research, innovation, and trade diversification, Canada's exports are still concentrated in a few primary products with minimal value-added goods, usually controlled by a small number of large companies. While there have been significant gains in agriculture and raw materials, Canada is still underperforming when it comes to value-added goods.

Exports of transport equipment, wood and wood products, and base metal products have experienced the sharpest dollar-value declines in the CPTPP area. These products experienced significant declines in the Japanese, Australian, and Mexican markets. The increasing slowdown in Japan's and Mexico's automotive sectors is one of the explanations for this significant decline. The U.S.-China trade war has also forced a realignment of production networks across the Pacific, with Southeast Asian economies like Vietnam, Malaysia, and Thailand capturing most relocations of production lines of intermediate and final goods that were produced in China in the last two decades. This element alone explains a great deal of the high growth rate of Canadian exports to these small economies, far outpacing the largest ones in the region. The new year will confirm whether this relocation process is going to accelerate or not, and that will depend on the evolution of the trade conflict between China and the United States.

However, value-added exports do show a high capacity to diversify into new areas and product categories. For instance, Alberta has exponentially expanded its exports of nuclear reactors, boilers, machinery, and mechanical appliances, with New Zealand becoming the fastest-growing purchaser of this line of products. Quebec has become the second-largest exporter of the same machinery line, with significant increases in its market participation in Australia and New Zealand.

This report represents the first exercise in measuring Canadian export performance within the CPTPP region. This snapshot of the first year of the CPTPP offers opportune information and analysis to decision-makers in the private and public sectors so they can plan and readjust their strategies for the upcoming years.

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APPENDIX I

Broad Structure of the Harmonized Commodity Description and Coding System

Section I — LIVE ANIMALS AND ANIMAL PRODUCTS	
HS 01	Live Animals
HS 02	Meat and Edible Meat Offal
HS 03	Fish, Crustaceans, Molluscs, and Other Aquatic Invertebrates
HS 04	Dairy Produce, Eggs, Honey, and Other Similar Edible Products of Animal Origin
HS 05	Products of Animal Origin Not Elsewhere Classified
Section II — VEGETABLE PRODUCTS	
HS 06	Live Trees and Other Plants (Incl. Cut Flowers and Ornamental Foliage)
HS 07	Edible Vegetables and Certain Roots and Tubers
HS 08	Edible Fruits and Nuts
HS 09	Coffee, Tea, Maté, and Spices
HS 10	Cereals
HS 11	Products of the Milling Industry; Malt, Starches, Inulin, and Wheat Gluten
HS 12	Oil Seeds, Oleaginous Fruits, Industrial or Medicinal Plants, Straw, and Fodder
HS 13	Lac, Gums, Resins, and Other Vegetable Saps and Extracts
HS 14	Vegetable Plaiting Material and Other Similar Vegetable Products
Section III — FATS, OILS, THEIR CLEAVAGE PRODUCTS AND WAXES	
HS 15	Fats, Oils, Their Cleavage Products, and Waxes
Section IV — FOOD PRODUCTS, BEVERAGES, SPIRITS, VINEGAR AND TOBACCO PRODUCTS	
HS 16	Meat, Fish, and Seafood Preparations
HS 17	Sugars and Sugar Confectionery
HS 18	Cocoa and Cocoa Preparations
HS 19	Preparations of Cereals, Flour, Starch, or Milk (Including Bread and Pastry)
HS 20	Preparations of Vegetables, Fruit, Nuts, or Other Parts of Plants
HS 21	Miscellaneous Edible Preparations
HS 22	Beverages, Spirits, and Vinegar
HS 23	Residues and Waste from the Food Industries, and Prepared Animal Fodder
HS 24	Tobacco and Manufactured Tobacco Substitutes

Section V — MINERAL PRODUCTS	
HS 25	Salt, Sulphur , Earths, Lime, Stone, Cement, and Plastering Materials
HS 26	Ores, Slag, and Ash
HS 27	Mineral Fuels, Mineral Oils, Bituminous Substances, and Mineral Waxes
Section VI — PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES	
HS 28	Inorganic Chemicals and Compounds of Precious Metals and Radioactive Elements
HS 29	Organic Chemicals (Including Vitamins, Alkaloids, and Antibiotics)
HS 30	Pharmaceutical Products
HS 31	Fertilizers
HS 32	Tannins, Dyes, Pigments, Paints, Varnishes, Inks, Putty, and Other Similar Substances
HS 33	Essential Oils and Resinoids, Perfumes, Cosmetics, and Toilet Preparations
HS 34	Soap, Washing and Lubricating Preparations, Waxes, and Related Articles
HS 35	Albuminoidal Substances, Modified Starches, Glues, and Enzymes
HS 36	Explosives, Matches, and Other Miscellaneous Combustible Preparations
HS 37	Photographic or Cinematographic Goods
HS 38	Miscellaneous Chemical Products
Section VII — PLASTICS, RUBBER, AND ARTICLES MADE FROM THESE MATERIALS	
HS 39	Plastics and Articles Thereof
HS 40	Rubber and Articles Thereof
Section VIII — RAW HIDES, SKINS, LEATHER, FUR, AND ARTICLES MADE FROM THESE MATERIALS	
HS 41	Raw Hides, Skins (Other than Furskins), and Leather
HS 42	Articles of Leather; Saddlery and Harness, Travel Goods, Handbags, and Similar Containers
HS 43	Furskins, Artificial Fur, and Related Articles of Apparel or Clothing Accessories
Section IX — WOOD AND WOOD ARTICLES, CORK, STRAW, AND OTHER PLAITING MATERIALS	
HS 44	Wood and Articles of Wood (Incl. Wood Charcoal)
HS 45	Cork and Articles of Cork
HS 46	Straw and Other Plaiting Materials; Basketware and Wickerwork
Section X — WOOD PULP, PAPER, AND PAPER ARTICLES	
HS 47	Pulp of Wood and the Like; Waste and Scrap of Paper or Paperboard
HS 48	Paper, Paperboard, and Articles Made from These Materials
HS 49	Printed Books, Newspapers, Pictures, Manuscripts, and the Like

Section XI — TEXTILES AND TEXTILE ARTICLES	
HS 50	Silk
HS 51	Wool, Wool Yarns, and Wool Fabrics
HS 52	Cotton, Cotton Yarns, and Cotton Fabrics
HS 53	Other Vegetable Textile Fibers, Yarns, and Fabrics
HS 54	Man-Made Filaments; Strip and the Like of Man-Made Textile Materials
HS 55	Man-Made Staple Fibers, Staple Fiber Yarns, and Fabrics
HS 56	Wadding, Felt, Nonwovens, Twine, Cordage, Rope, Cables, and Related Articles
HS 57	Carpets and Other Textile Floor Coverings
HS 58	Special Woven or Tufted Fabrics, Lace, Trimmings, Embroidery, and Tapestries
HS 59	Coated, Impregnated, Covered or Laminated Fabrics, and Industrial Textiles
HS 60	Knitted or Crocheted Fabrics
HS 61	Knitted or Crocheted Clothing and Articles of Apparel
HS 62	Woven Clothing and Articles of Apparel
HS 63	Other Made-Up Textile Articles and Worn Clothing
Section XII — FOOTWEAR, HEADWEAR, UMBRELLAS, CANES, AND SIMILAR ACCESSORIES	
HS 64	Footwear
HS 65	Headwear
HS 66	Umbrellas, Whips, Walking-Sticks, and Similar Articles
HS 67	Prepared Feathers and Downs, Artificial Flowers, and the Like
Section XIII — GLASS, GLASSWARE; ARTICLES OF CERAMICS, STONE, AND SIMILAR MATERIALS	
HS 68	Articles of Stone, Plaster, Cement, Asbestos, Mica, or Similar Materials
HS 69	Ceramic Products
HS 70	Glass and Glassware
Section XIV — PEARLS, PRECIOUS METALS OR STONES, COINS, AND JEWELLERY	
HS 71	Pearls, Precious Stones or Metals, Coins, and Jewellery
Section XV — BASE METALS AND ARTICLES OF BASE METAL	
HS 72	Iron and Steel
HS 73	Articles of Iron or Steel

HS 74	Copper and Articles Thereof
HS 75	Nickel and Articles Thereof
HS 76	Aluminum and Articles Thereof
HS 78	Lead and Articles Thereof
HS 79	Zinc and Articles Thereof
HS 80	Tin and Articles Thereof
HS 81	Other Base Metals, Cermets, and Articles Thereof
HS 82	Tools, Implements, Cutlery, Spoons, and Forks of Base Metals
Section XVI — MACHINERY; MECHANICAL, ELECTRICAL, AND ELECTRONIC APPLIANCES OR EQUIPMENT	
HS 83	Miscellaneous Articles of Base Metal
HS 84	Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances
Section XVII — VEHICLES, AIRCRAFT, VESSELS, AND OTHER TRANSPORTATION EQUIPMENT	
HS 85	Electrical or Electronic Machinery and Equipment
HS 86	Rail Transportation (Incl. Tramways and Traffic Signalling Equipment)
HS 87	Motor Vehicles, Trailers, Bicycles, Motorcycles, and Other Similar Vehicles
HS 88	Aircraft and Spacecraft
Section XVIII — CLOCKS, WATCHES, AND SPECIALIZED INSTRUMENTATION	
HS 89	Ships, Boats, and Floating Structures
HS 90	Optical, Medical, Photographic, Scientific, and Technical Instrumentation
HS 91	Clocks and Watches and Parts Thereof
HS 92	Musical Instruments
Section XIX — ARMS AND AMMUNITION	
HS 93	Arms and Ammunition and Parts Thereof
Section XX — MISCELLANEOUS MANUFACTURED ARTICLES	
HS 94	Furniture and Stuffed Furnishings, Lamps and Illuminated Signs, Prefabricated Buildings
HS 95	Toys, Games, Sporting Goods, and Other Goods for Amusement
HS 96	Miscellaneous Manufactured Articles
Section XXI — WORKS OF ART, COLLECTORS' PIECES, AND ANTIQUES	
HS 97	Works of Art, Collectors' Pieces, and Antiques
HS 98	Special Classification Provisions — Non Commercial
HS 99	Special Classification Provisions — Commercial

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