

**Canada's Bilateral Free Trade Agreement Strategy in Latin America:
A Strategic Analysis**

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Major Research Paper

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September 1, 2011

Abstract:

This paper will attempt to identify the quantifiable benefits of Canada's strategy of signing bilateral free trade agreements (FTAs) with Latin American countries in order to bolster its trade and investment in the region. First, a brief history of Canada's trade strategy in the Americas and an overview of Canada's current policy will be presented. This paper will then consider the differing viewpoints found in the literature on whether FTAs are valid avenues for increasing trade and investment in the region. Next, it will conduct a quantitative analysis of Canada's oldest bilateral FTAs with Latin American nations, namely; Chile (1997) and Costa Rica (2002). It is found that the Canada-Chile FTA has enabled increased Chilean exports to Canada and increased Canadian foreign direct investment (FDI) to Chile with only a limited expansion of Canadian exports to Chile. Meanwhile, it is concluded that the Canada-Costa Rica FTA has slightly enhanced the Canada-Costa Rica trade relationship while doing little to spur Canadian FDI to Costa Rica. Subsequently, this paper will investigate Canada's bilateral FTAs with Latin American countries which were signed or came into force recently, including the FTAs with Colombia (signed in 2008), Peru (in force in 2009), and Panama (signed in 2010). Canadian FDI is expected to increasingly flow to the three countries – mostly resulting from investment in their oil, gas and mining sectors. In the cases of Peru and Panama, imports should see a substantial increase due to surging gold exports. Imports from Colombia should rise as a result of the removal of tariffs on specific products like cut flowers as well as increased extractive resource sector exports. Finally, Canadian agricultural exports should benefit most from the agreements with Peru and Colombia while Canadian exporters will gain considerably better access to Panama's small market.

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INTRODUCTION

Since the mid-1990s, Canada's principal trade policy in the Americas has been to sign bilateral free trade agreements (FTAs) with the region's pro-free trade economies. This paper aims to examine the quantifiable benefits of Canada's five bilateral FTAs with Latin American countries (excluding the North American Free Trade Agreement). The history of Canada's economic relationship with the Americas is first outlined followed by a literature review on the effectiveness of bilateral free trade agreements versus multilateral trade liberalization, the opposing viewpoints on what should be the direction of Canada's overall trade policy, as well as the various perspectives on the country's current Americas trade strategy. Next, a quantitative analysis of bilateral trade and Canadian FDI outflows is conducted for the two oldest bilateral FTAs, the Canada-Chile and Canada-Costa Rica FTAs. It is found that the Canada-Chile FTA has enabled a significant increase in Chilean exports to Canada and Canadian FDI outflows to Chile while Canadian exports to Chile have only modestly increased in comparison with the pre-FTA period. It is also concluded that the Canada-Costa Rica FTA has slightly boosted bilateral trade while Canadian FDI has increased at a slower rate in comparison with the pre-FTA period. Subsequently, this paper investigates the potential growth in bilateral trade and Canadian direct investment resulting from the recent Canada-Colombia, Canada-Peru and Canada-Panama FTAs. It is predicted that Canadian exports will see a modest boost, particularly wheat exports, as a result of the FTAs while Canadian FDI will in all probability increasingly flow to the three economies as they each have important mining, oil and gas sectors. Meanwhile, Peruvian and Panamanian exports to Canada are expected to see a boost, not necessarily due to a reduction in Canadian tariffs, but rather due to the surge in their gold exports. Colombian exports to Canada

will likely increase as a result of the reduction in tariffs on key exports such as cut flowers as well as increasing extractive resource sector exports.

Canada's current Americas trade strategy has produced mixed results – relatively low overall Canadian export growth, relatively high import growth and increased Canadian FDI flows to countries with major extractive resource sectors. If Canada wants to move forward with promoting free trade in the region and bolstering its trade links, the current strategy remains the only viable option considering the collapse of the Free Trade Area of the Americas and the persistent stalling of the Doha Round. Canada is not wasting resources by negotiating with the region's mid-sized and smaller economies – negotiations are facilitated by the fact most potential trade partners also negotiate with the United States and Canada is effectively pursuing deals with major and minor trade partners around the globe regardless. It would be preferable if Canada could negotiate with other major regional economies like Brazil and Argentina but that is not a politically achievable objective at this time. Meanwhile, Canada's low export growth in the region would be probably be even worse had it not signed any FTAs and high import growth is not necessarily disadvantageous for Canadian companies and consumers.

It should be noted that this paper is a preliminary look at the results of Canada's Americas trade strategy. The limitations of the analytical approach used in this study must be recognized. The precise degree to which FTAs cause an increase in Canada's bilateral trade and outward FDI flows to Latin American countries cannot be determined (or to which degree they are correlated). An econometric analysis would be able to empirically determine whether Canada's bilateral FTAs have a causal effect on trade and FDI flows (while keeping other key factors fixed) as well as the extent of the causal effect. Such an analysis would paint a more

refined picture of the relationship between Canada's FTAs and its bilateral trade and outward FDI flows with Latin American countries than the type of quantitative analysis used in this study.

An econometric analysis was initially considered for this study however a lack of data points made it statistically impossible. Considering that the oldest agreement came into force in 1997 and the latest agreements with Panama, Colombia and Peru were only signed in the last few years, not enough time has elapsed in order to conduct a statistically significant econometric analysis. Only general trends and conclusions can be outlined based on the quantitative analysis conducted. For the Canada-Chile and Canada-Costa Rica agreements, pre-FTA trendlines are used to compare the rate in increase or decrease of trade and FDI flows in the post-FTA period. Additionally, the change in Canada's share of each partner country's total exports/imports and the change in their share of Canada's total exports/imports and FDI flows is examined. Again, only probable reasons can be given to explain the likely causes behind increasing or decreasing flows after the FTA was signed. Expert opinions as well as general trade/FDI data trends are used to predict the likely outcomes of Canada's FTAs with Panama, Colombia and Peru as well. Therefore, this paper provides a preliminary study of the outcome of Canada's Americas trade strategy so far. Future econometric analyses should be conducted to determine with more accuracy whether Canada's FTAs were the primary driver behind increasing trade and investment flows or whether the increase and investment flows should be more attributed to other factors, as data becomes available.

HISTORY OF CANADA'S AMERICAS STRATEGY AND ITS CURRENT AMERICAS TRADE POLICY

Canada's history of engaging with the Americas has been marked by varying periods of increasing interest and periods of decreasing interest. With the United States constituting by far the most important destination for Canadian exports, Canadian political and economic interests have historically centered on managing Canada's relationship with its largest trading partner. The Americas have been a relatively peripheral region in Canada's foreign policy; however, the Canadian government and Canadian businesses have an extensive history of working in the region. Canadian businesses have been operating and investing in the area since the late nineteenth century with the financial and extractive resource sectors long having the biggest presence. The Bank of Nova Scotia first opened a branch in Jamaica in 1889 while the Royal Bank of Canada began operating in Cuba in 1903. Imperial Oil was the first major firm from the resource sector to launch operations in the Americas when it entered Peru and Colombia in the 1910s and 1920s.¹

Despite the early presence of some Canadian businesses in the Americas, Stevenson argues that for the first century of Canada's existence, from 1867 to 1967, successive Canadian governments showed little to no interest in hemispheric affairs as Canada saw itself first as a European nation, and later as a North American nation (excluding Mexico). Two-way diplomatic representations between Canada and Latin American nations only began in 1941. Before 1948, the predominant Americas foreign policy concern for Canada was whether it should join the Pan-

¹ Randall, Stephen. 'Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges' (Report). Canadian International Council, August 2010, p. 14.

American Union and later its successor, the Organization of American States.² Former Governor General Vincent Massey took the view that Canada's stance on the Americas should be complementary to the United States and it should not subvert that key bilateral relationship by joining the Pan-American Union.³

Canada first took a major interest in the region in 1968 following Prime Minister Pierre Trudeau's foreign policy review. Prime Minister Trudeau wanted to counter-balance Canada's dependence on the United States and develop stronger relationships with strategic regions. Canada's engagement with the Americas was predominantly state-led in the 1970s. Hart explains that trade with Latin America and other developing countries showed 'early promise' in the 1970s but businesses were unwilling to make the long-term investments in Latin America needed to sustain strong trading relationships. Despite Trudeau's pledge to increase ties, the region remained marginal in terms of Canadian trade and investment shares in the 1970s and 1980s.⁴ Trudeau's second time in office, starting in 1980, marked a period of government disinterest in the region. However, following the conflict in Central America (civil wars in Nicaragua, El Salvador and Guatemala), civil society pushed Canada to further engage with the region and during the first Mulroney government; Canada began to play a large peacekeeping role in Central America. Stevenson considers that development as a defining moment in Canada's Americas

² Stevenson, Brian. *Canada, Latin America, and the New Internationalism, a Foreign Policy Analysis, 1968-1990*. McGill-Queen's University Press, 2001, p. 112.

³ Massey, Vincent. 'Canada and the Inter-American System'. *Foreign Affairs*. Vol. 26, 1947-1948, p. 700.

⁴ Hart, Michael. *A Trading Nation: Canadian Trade Policy from Colonialism to Globalization*. UBC Press, 2002, p. 296.

strategy as it broke completely with the Reagan Administration's policy (assisting the anti-communist forces involved in the civil wars).⁵

Perhaps most important to the formation of Canada's current Americas trade strategy was the steadfastness with which the Mulroney government defended the values of free trade and ultimately established it as a relative 'norm' in Canada.⁶ Daudelin states that under the Mulroney government, Canada 're-discovered' the hemisphere once again. In 1988, the Canada-U.S. Free Trade Agreement came into force; Canada finally joined the Organization of American States (OAS) in 1990; and the North American Free Trade Agreement (Canada, U.S., and Mexico) came into force in 1994. At the first-ever Summit of the Americas in Miami in 1994, Canada was among the biggest proponents of the proposed Free Trade Area of the Americas (FTAA).⁷ In 1997, under Prime Minister Chrétien, Canada's bilateral FTA with Chile came into force, six years prior to the U.S.-Chile FTA.⁸ The Canada-Chile FTA was a landmark as it was Canada's first FTA with a South American country and it was Chile's first agreement with any country. The FTA was accompanied by the Canada-Chile Agreement on Environmental Cooperation and the Canada-Chile Agreement on Labour Cooperation – a practice which began with NAFTA and which would be repeated in most of Canada's future FTAs with Latin American countries.⁹

⁵ Stevenson, Brian. *Canada, Latin America, and the New Internationalism, a Foreign Policy Analysis, 1968-1990*. McGill-Queen's University Press, 2001, p. 113.

⁶ Hart, Michael. *A Trading Nation: Canadian Trade Policy from Colonialism to Globalization*. UBC Press, 2002, p. 393.

⁷ Daudelin, Jean. 'Foreign Policy at the fringe: Canada and Latin America.' *International Journal*. Vol. 58, No. 4, Autumn 2003, p. 638.

⁸ Randall, Stephen. 'Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges' (Report). Canadian International Council. August 2010, p. 9.

⁹ Department of Foreign Affairs and International Trade. 'Canada-Chile Free Trade Agreement'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/chile-chili/index.aspx?lang=en>

Canada's re-engagement with the region continued slowly but surely in the early 2000s. In 2001, Canada hosted the third Summit of the Americas in Quebec City. The event saw further negotiations for the proposed Free Trade Area of the Americas.^{10,11} After nine months of negotiations, the Canada-Costa Rica FTA came into force in 2002, along with complementary labour and environmental agreements.¹² Moreover, in 2001, Canada launched free trade negotiations with the Central American Four nations (El Salvador, Honduras, Guatemala, and Nicaragua).¹³ In 2002, the federal government also began exploratory free trade discussions with the Andean Community countries (Colombia, Peru, Ecuador, and Bolivia), which eventually turned into individual deals with Colombia and Peru.¹⁴

The year 2007 marked another turning point in Canada's strategy in the Americas with Prime Minister Stephen Harper identifying the region as a Canadian foreign policy priority during a regional visit. The Harper government's policy is considered to be generally in line with that of previous Conservative and Liberal governments, however; it has been outlined "more openly, with more confidence, and perhaps with more coherence".¹⁵ Prime Minister Harper's

¹⁰ The Free Trade Area of the Americas never came to fruition as a result of the inflexibility of key countries on certain sticking points. Developing countries like Brazil, Argentina and Venezuela were largely opposed to rich country agricultural subsidies. Developed nations, such as the United States and Canada, were unable to achieve their goals of reducing barriers to services trade and improving intellectual property rights in developing countries.

¹¹ Dowding, Jillian and Randall, Stephen. 'Canada, Latin America, Colombia, and the Evolving Political Agenda'. *Canadian Foreign Policy*. Vol. 14, No. 3, Fall 2008, p. 31.

¹² Department of Foreign Affairs and International Trade. 'Canada-Costa Rica Free Trade Agreement'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/costarica/index.aspx?lang=en>

¹³ Department of Foreign Affairs and International Trade. 'Canada-Central America Four (CA4)'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/ca4.aspx?lang=en>

¹⁴ Department of Foreign Affairs and International Trade. 'Canada-Andean Countries Free Trade Discussions'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/andean-andin/index.aspx?lang=en>

¹⁵ Dowding, Jillian and Randall, Stephen. 'Canada, Latin America, Colombia, and the Evolving Political Agenda'. *Canadian Foreign Policy*. Vol. 14, No. 3, Fall 2008, p. 31.

stated objectives were to bolster Canada's economic interests, in particular by starting FTA discussions with Colombia and Peru, and reinforcing Canada's humanitarian assistance to the region. He stated that development did not have to choose between unfettered capitalism and old socialist models and avowed that Canada was an example of a "constitutional democracy and economic openness combined with the social safety nets, equitable wealth creation and regional sharing arrangements that prevent the sort of exploitation still seen far too often in the Americas".¹⁶ In 2006, the Department of Foreign Affairs and International Trade created the Secretariat for the Americas Strategy with the stated goal of a "strategic direction on the comprehensive whole-of-government action plan in support of the government's commitment to re-engage with the Americas".¹⁷ In 2008, Canada's first-ever Minister of State of Foreign Affairs for the Americas was appointed (then Peter Kent).¹⁸

The Department of Foreign Affairs and International Trade lists three objectives for the Americas region: reinforcing democratic governance, increasing economic prosperity and advancing our common security. Canada's current trade strategy is described as the following:

Until the recent global financial downturn, the Americas had experienced several years of sustained economic growth. Canada is leading by example, not only by resisting protectionism in the wake of the economic slowdown, but by advancing trade liberalization accompanied by responsible regulations and social programs. In this region of dynamic economic opportunities, Canada is pursuing robust bilateral and regional free trade agreements (FTAs), double taxation agreements, foreign investment protection agreements, stronger financial and banking institutions, and a sustained development assistance agenda. Increased trade in the region can also have a positive impact on democratic reforms and security issues. In 2008, Canada signed FTAs with Peru and Colombia, which include parallel agreements on labour and

¹⁶ *ibid*, p. 29.

¹⁷ *ibid*, p. 31.

¹⁸ Kent, Peter. 'Realizing Canada's potential in the hemisphere: 20 years in the OAS'. Canadian Foundation for the Americas. October 2010. <http://www.focal.ca/publications/focalpoint/325-october-2010-peter-kent>

environment standards that will help distribute the income generated to local communities.¹⁹

Following the failure of the Free Trade Area of the Americas, Canada's Americas trade strategy is essentially to sign as many bilateral FTAs and accompanying agreements as possible with willing partners. The Canada-Peru FTA was signed in 2008 and came into force in 2009. The Canada-Colombia FTA and the complementary agreements on labour, the environment, and human rights reporting, were signed in 2008 and will come into force in August 2011. Most recently, the Canada-Panama FTA was signed in May 2010, after negotiations were launched in 2008. In 2007, Canada also launched free trade negotiations with the Dominican Republic and CARICOM (Caribbean Community), an organization consisting of 15 Caribbean nations and dependencies.²⁰

Canada's current Americas strategy has slowly taken shape over the past few decades. The Mulroney government set the precedent of using bilateral FTAs as Canada's primary tool for safeguarding the nation's trade interests. Prime Minister Chrétien initiated the process of signing agreements with relatively minor trade partners. Prime Minister Harper significantly sped up the process of signing bilateral free trade agreements with Latin American countries - launching or re-launching five different FTA agreements early in his time in power. With the May 2011 re-election of the Conservative Party, the same strategy looks like it will continue apace.

¹⁹ Department of Foreign Affairs and International Trade. 'Canada's Engagement in the Americas'. August 14, 2009. <http://www.international.gc.ca/americas-ameriques/engagement.aspx?lang=eng>

²⁰ Department of Foreign Affairs and International Trade. 'Negotiations and Agreements'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/index.aspx>

Table 1: Canada's FTAs with Latin American states²¹

Agreement	Date of Signature	'In Force' Date
NAFTA	December 1992	January 1994
Chile	December 1996	July 1997
Costa Rica	April 2001	November 2002
Colombia	November 2008	August 2011
Peru	May 2008	August 2009
Panama	May 2010	
Central America 4	<i>Negotiations since 2001</i>	
Dominican Republic	<i>Negotiations since 2007</i>	
CARICOM	<i>Negotiations since 2007</i>	

²¹ Department of Foreign Affairs and International Trade. 'Canada-CARICOM Free Trade Negotiations'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/caricom.aspx>; 'Canada-Central America Four (CA4)'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/ca4.aspx?lang=en>; 'Canada-Chile Free Trade Agreement'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/chile-chili/index.aspx?lang=en>; 'Canada-Colombia Free Trade Agreement'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/andean-andin/can-colombia-colombie.aspx>; 'Canada-Costa Rica Free Trade Agreement'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/costarica/index.aspx?lang=en>; 'Canada-Dominican Republic Free Trade Agreement Negotiations'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/dominican-dominicaine.aspx?lang=eng>; 'Canada-Panama Free Trade Agreement'. http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/panama/index.aspx?menu_id=15&menu=L; 'Canada-Peru Free Trade Agreement'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/andean-andin/can-peru-perou.aspx>; 'Canada and the North American Free Trade Agreement'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/index.aspx?lang=eng>. Accessed May 15, 2011.

LITERATURE REVIEW

This section first presents the differing perspectives on whether it is best for countries to pursue bilateral free trade agreements or whether they should concentrate on multilateral trade liberalization. It then considers the main points of view on how Canada should formulate its overall trade strategy. Finally, it investigates the various standpoints on what Canada's Americas trade strategy should look like.

BILATERAL FREE TRADE AGREEMENTS VERSUS MULTILATERAL LIBERALIZATION

Debate over the merits of free trade has been ongoing for over a century. Among those in favour of free trade, there are dissenting views over whether bilateral free trade agreements between individual countries are worthwhile or if countries should be more focused on wider liberalization among all countries through mechanisms such as the World Trade Organization (WTO).

Multilateral Liberalization

Bhagwati is a notable opponent of bilateral free trade agreements, instead favouring multilateral liberalization. He believes that FTAs disrupt multilateral trade liberalization efforts since they often actually increase regulations, tariffs and other trade barriers on the international level. For example, 'eco dumping' (taxes on products from countries with inferior environmental policies) and 'social dumping' (taxes on products from countries with inferior labour standards

and human rights) measures are more likely to be included in bilateral FTAs.²² Bhagwati also argues that given the global nature of value chains, it is pointless to base trade rules on the notion that a product is produced solely in one country. Additionally, trade diversion, the concept that trade is diverted away from efficient export markets to less efficient ones, is more likely to occur under FTAs than trade creation, the concept that trade flows increase among members of the agreement as a result of efficiency gains from their economic union.²³

Free Trade Agreements

Conversely, Summers is of the view that any liberalization – bilateral, regional or multilateral – is beneficial and brings about trade creation, efficiency gains, knowledge transfers, and domestic economic reforms. He notes that bilateral and regional agreements bring about more trade creation than trade diversion because most agreements are between partners with substantial existing trade relationships. For example, the increase in trade created by the U.S.-Canada FTA is much more sizeable than the trade diversion away from the U.S. and Canada's other trade partners. Secondly, Summers notes that trade diversion is not always bad and generally it is associated with low efficiency costs – it is only unwelcome when trade is diverted away from a more efficient trade partner. Third, economists rarely properly identify the true benefits of liberalization; namely increased competition and better regulatory regimes within a country, which can occur through bilateral agreements as well as multilateral liberalization. Finally, bilateral and regional agreements likely do encourage multilateral liberalization as they reduce the number of voices at the bargaining table (individual countries will likely work

²² Bhagwati, Jagdish. 'U.S. Trade Policy: The Infatuation with FTAs'. Columbia University, Discussion Paper Series. No. 726, April 1995, p. 15.

²³ *ibid*, p. 5-6.

together if they are members of a regional bloc).²⁴ More specifically, Finger notes several advantages of FTAs over multilateral liberalization: FTAs generally cover more issues than WTO negotiations, they are better at addressing country-specific needs than the generic WTO negotiations, and developing countries often receive ‘implementation assistance’ in North-South FTAs.²⁵ Moreover, Freund, a strong supporter of FTAs, also finds that each new free trade agreement helps reduce barriers in general and is one step closer to multilateral trade liberalization. She contends that a country is *always* better off signing an agreement.²⁶

Pragmatic Solutions

Meanwhile, Baldwin concurs with Bhagwati that the proliferation of bilateral and regional agreements is not the most effective avenue towards free trade but he makes the practical point that they are here to stay. He suggests that the WTO should push to ‘multilateralise regionalism’ – essentially take measures to reduce the trade diverting effects of free trade agreements on non-member nations.²⁷ The WTO could do so by 1) establishing a ‘spoke’ forum that would assist smaller ‘spoke’ economies who are negotiating deals with larger ‘hub’ economies; 2) establishing a negotiating forum for the coordination of rules of origin (rules that govern ‘country of origin’ labeling); and 3) providing non-partisan research to outline the effects on third countries of bilateral and regional agreements.²⁸ Desker also makes the

²⁴ Summers, Lawrence. ‘Regionalism and the World Trading System’ in *Policy Implications of Trade and Currency Zones*. Federal Reserve Bank of Kansas City. 1991, p. 295-301.

²⁵ Finger, J. Michael. ‘Free Trade Agreements as an Effective Tool for Trade Facilitation’ (Speech). Asian Development Bank FTA Forum. December 8-9, 2010, p. 15. www.boaforum.org/html/ac2010/Free.doc

²⁶ Freund, Caroline. ‘Spaghetti Regionalism’. Board of Governors of the Federal Reserve System: International Finance Discussion Papers. No. 680, September 2000, p. 1.

²⁷ Baldwin, Richard. ‘Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade’. National Bureau of Economic Research Working Paper. *World Economy*. Vol. 29, No. 11, 2006, p. 1451.

²⁸ *ibid*, p. 1510-1512.

acknowledgement that FTAs are a ‘second-best’ option; however, with WTO talks consistently bogged down (the Doha Round talks have made little progress since they began in 2001), governments need to focus on FTAs as they are politically attainable and can be achieved within the span of their time in office.²⁹

Other authors find there is no clear-cut answer. For example, Schott contends that FTAs can either be compatible or harmful for wider liberalization processes through the WTO depending on various factors. It depends “on how the FTAs are crafted and the volume of trade covered, who participates, and whether significant progress on multilateral reforms proceeds in tandem in the WTO”.³⁰ A study by Kono supports this viewpoint. Looking at 30 trading nations between 1988 and 1998, Kono finds that FTAs complement multilateral liberalization when the members of the FTA’s intra-FTA and extra-FTA comparative advantages are the same. However, when the intra-FTA and extra-FTA comparative advantages are significantly different, it hurts multilateral liberalization.³¹ On the effectiveness of FTAs, Bowman argues that bilateral FTAs only reinforce existing trade relationships; decisions about which countries to pursue FTAs with, the type of FTA and the scope are based on how to best deepen substantial existing trade relationships rather than kick-starting non-existent ones.³²

²⁹ Desker, Barry. ‘In defence of FTAs: from purity to pragmatism in East Asia’. *The Pacific Review*. Vol. 17, No. 1, March 2004, p. 3.

³⁰ Schott, Jeffrey. ‘Free Trade Agreements: Boon or Bane of the World Trading System?’. Chapter within *Free Trade Agreements: US Strategies and Priorities*. International Institute for Economics. April 2004, p. 5.

³¹ Kono, Daniel Y. ‘When Do Trade Blocs Block Trade?’. *International Studies Quarterly*. Vol. 51, 2007, p. 165.

³² Bowman, Gregory. ‘The Domestic and International Policy Implications of ‘Deep’ versus ‘Broad’ Preferential Trade Agreements’. *Indiana International & Comparative Law Review*. Vol. 19, No. 3, 2009, p. 498.

There is no consensus in the literature as to what Canada's overall trade strategy should look like. However, there are three dominant policy options in the literature: focusing on Canada's trade relationship with the United States, pursuing bilateral FTAs with other trade partners and devoting resources to WTO-sponsored multilateral trade liberalization. Hart, who believes that Canada should prioritize its trade relationship with the United States, takes the view that signing free trade agreements with minor partners, such as Chile and Costa Rica, is not worthwhile as they are overly difficult to conclude and the political capital lost and resources expended by the Canadian government while trying to negotiate deals outweigh the potential commercial benefits. A better approach is to use resources to advance the interests of individual Canadian firms as needed.³³ Hart also finds that Canada should redirect the resources it is 'wasting' on FTA negotiations and supporting WTO-sponsored multilateral trade liberalization toward the Canada-U.S relationship as Canadian firms' best opportunity of seizing international opportunities is to further entrench themselves in US-based global value chains.³⁴

Fried makes two significant arguments refuting Hart. First, he disagrees with Hart's assertion that Canada is wasting its resources on seeking FTAs with minor trade partners as Canadian exporters can get completely shut out of certain markets that establish FTAs with competitor nations such as the U.S., and not Canada. Secondly, in order to entrench itself in U.S.-based global value chains, Canada should sign FTAs with countries that also have

³³ Hart, Michael. 'Canadian Engagement in the Global Economy', Trade and Globalization Chapter in *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-being*. Institute for Research on Public Policy. 2007, p. 417-418.

³⁴ *ibid*, p. 431.

agreements with the U.S. (otherwise Canada will become a less desirable location to export from). Fried also highlights the importance of Canada devoting resources to multilateral liberalization as much of the text of NAFTA is derived from the WTO and, if Canada influences the direction of WTO-inspired liberalization, it can positively affect NAFTA and Canada-U.S. trade. Canada's engagement with the WTO is also crucial in order to reduce import substitution from China at the expense of Canada in the U.S.³⁵ Head agrees with Hart that FTAs with small economies are of 'dubious value' but agreements with larger markets like South Korea are worth pursuing.³⁶ Moreover, speaking to *Canadian Business* magazine, former McGill University trade expert (now at the London School of Economics) Mark Manger disagrees with the notion that lots of resources are 'wasted' on pursuing agreements with smaller countries. He makes the key observation that since Canada tends to follow the U.S.'s lead when choosing free trade partners, Canada usually asks for the same terms of trade, making negotiations cheap and quick.³⁷

CANADA'S AMERICAS TRADE STRATEGY

Like Canada's overall trade strategy, there is no consensus in the literature as to what Canada's approach to trade policy in Latin America should be and whether its current strategy is effective. Some proponents argue that trade diversification is vital to the Canadian economy and any bilateral FTAs are beneficial for growth; others argue that Canada should be focusing on its

³⁵ Fried, Johnathan T. 'Constructing Constructive Engagement'. Trade and Globalization Chapter in *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-being*. Institute for Research on Public Policy. 2007, p. 437-438.

³⁶ Head, Keith. 'Engage the U.S., Forget the Rest?'. Trade and Globalization Chapter in *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-being*. Institute for Research on Public Policy. 2007, p. 447-448.

³⁷ Bao, Jane. 'A baby step to the south'. *Canadian Business*. Vol. 81, No. 12/13, Aug. 18, 2008, p. 21-28.

relationships with major economies rather than signing agreements with peripheral economies; and others are strongly opposed to FTAs with Latin American countries, in particular the Canada-Colombia FTA, citing human rights concerns.

The current Americas strategy is heading in the right direction

The Canadian Council of Chief Executives (CCCE) is an example of an organization that strongly supports Canada's trade policy in the Americas (and international trade liberalization in general). David-Stewart Patterson, Executive Vice President of the CCCE, argues that Canada should be taking all possible steps to strengthen trade ties with emerging economies, to assist the recovery in face of the financial crisis in the short term and to build competitive advantages for Canadian firms in the long term. In defense of the Canada-Colombia FTA in particular, he states that the agreement would boost the Colombian economy and demonstrate Canada's commitment to democratic governments.³⁸ According to the Economist Intelligence Unit, while Canada cannot match the American economic influence in the region, it has the opportunity to take advantage of the relatively declining American presence in the region. They state that the United States' credibility has been waning since the breakdown of the FTAA initiative and by prioritizing other regions like the Middle East.³⁹ Carlo Dade, Executive Director of the Canadian Foundation for the Americas, believes that Canada's engagement with Latin America had been lacking, but praises the Harper government for playing catch-up in the region in terms of

³⁸ Stewart-Patterson, David. 'The Global Economic Crisis And The Canada-Colombia Free Trade Agreement' (Speech). Canadian Council of Chief Executives. November 19, 2009. http://www.ceocouncil.ca/en/view/?document_id=1385

³⁹ 'Colombia: Jilted'. Economist Intelligence Unit. *Business Latin America*. Vol. 42, No. 29, July 23, 2007, p. 1.

democracy promotion, trade and other development areas such as the protection of the disabled. Dade views the appointment of a Minister for the Americas as a particularly important step.⁴⁰

Canada should focus on the region's biggest economies

Meanwhile, Randall states that the expansion of trade with the Americas is essential but Canada should be focusing its attention on its biggest trade partners (Brazil, Mexico, Peru, Chile, and Venezuela) and devote less resources to smaller economies in the region. He notes that the Canadian government should *not* avoid signing agreements with conflict-stricken countries, such as Colombia, if the agreement can help resolve the conflict. Furthermore, he stresses that the government should continue to include provisions on labour, the environment and human rights in its agreements and the provisions should be of the highest international standards.⁴¹ A common critique is that Canada tends to sign deals with small countries with very low demand for Canada's industrial goods. Lavoie-Evans notes that in almost all cases, Canada's exporters have only enjoyed a minimal increase in sales to the partner countries.⁴² Furthermore, Daudelin states that a smart approach would be to recognize that the region is and will remain marginal to Canada's trade interests, except for Mexico.⁴³ According to Daudelin, three main assumptions drove Canada's renewed push for economic integration with the Americas in the early 1990s:

- 1) the hemisphere is now the only possible regional "home" for Canada in the vast world, what happens there is important from the standpoint of Canada's economic, political and security interests, and Canada has the capacity to become a significant player in the region; 2) the hemisphere is integrating – economically, politically and as a security complex – as a "rules-based"

⁴⁰ Dade, Carlo. 'Canada at home in the hemisphere?'. Canadian Foundation for the Americas. December 2009.

⁴¹ Randall, Stephen. 'Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges' (Report). Canadian International Council'. August 2010, p. 9.

⁴² Lavoie-Evans, Emma. 'Canada's Free Trade Agreements with Latin America' (Report). North-South Institute. May 2010, p. 12.

⁴³ Daudelin, Jean. 'Foreign Policy at the fringe: Canada and Latin America.' *International Journal*. Vol. 58, No. 4, Autumn 2003, p. 665.

regional trade regime is emerging and as its multilateral institutional machinery gains relevance, and 3) the region is getting better, both economically and politically, its countries are progressively joining the global community of democracies and, albeit slowly, struggling out of economic under-development.⁴⁴

However, Daudelin downplays those assumptions. He goes on to declare that Canada must accept that it is an outsider in the region; that it should pursue a bigger role in the Caribbean, the only part of the continent where it could have a significant impact; and it should downgrade its commitment to multilateral mechanisms and focus on bilateral relations with key countries such as Brazil and Mexico.⁴⁵

Canada's trade strategy should be more focused on social issues

Another camp has taken issue with Canada's willingness to sign FTAs with countries with questionable human rights track records, especially Colombia. A report by the Canadian Council for International Co-operation and three other Canadian think tanks declares that trade can support development if it benefits vulnerable populations in developing countries but the Canada-Colombia FTA fails to do so. It also states that the agreement's provisions on corporate social responsibility are unenforceable; Colombia's agriculture sector and employment in the sector will be particularly hard hit; and Canada's interests in other countries in the region will be in jeopardy because of the agreement; among other criticisms.⁴⁶ Gonzalez takes the view that Canada's rhetoric on its pursuit of free trade agreements in order to alleviate poverty is completely false. Canada is only pursuing agreements in order to create more opportunities for

⁴⁴ *ibid*, p. 638.

⁴⁵ *ibid*, p. 666.

⁴⁶ 'Making a Bad Situation Worse: An Analysis of the Text of the Canada-Colombia Free Trade Agreement' (Report). Canadian Council on International Co-operation, Canadian Association of Labour Lawyers, Canadian Labour Congress, and Canadian Centre for Policy Alternatives. 2009, p. 6.

Canadian FDI and to become less dependent on trade with the United States.⁴⁷ On the other hand, Healy and Katz have suggested that by re-engaging with Latin America, Canada's real objective is not to diversify its trading patterns, but rather to improve its relationship with the United States. They write that, by signing an agreement with Colombia, Canada is acting on the behalf of the United States in Latin America to create new strategic trade and security alliances in the Hemisphere and reverse America's relatively declining influence.⁴⁸ Cameron and Hecht argue that the first 're-engagement' under Mulroney assumed that market reform was the answer to increasing Canada's role in the region. However, they posit that open markets have not been a magic bullet and social issues must become more central in Canada's Americas policy.⁴⁹

POLICY POSITION

This paper agrees with Desker's assertion that further multilateral liberalization would bring about the optimal results but with WTO talks consistently stalled and no real promise of ever being concluded, the only real alternative is for countries to pursue the 'second-best' options of bilateral or regional FTAs. In terms of Canada's options in the Americas, it can only realistically pursue bilateral FTAs, given the collapse of the FTAA talks, if it wants to continue pursuing free

⁴⁷ Gonzalez, Adriana. 'La politica exterior de Canada hacia Latina America: una aproximacion a sus principios'. Universidad de la Habana. p. 21. http://www.seminecal.org/documentos/gonzalez_adriana.pdf

⁴⁸ Healy, Teresa and Katz, Sheila. 'Big and Little Brother Bilateralism: Security, Prosperity, and Canada's Deal with Colombia. *Studies in Political Economy*. Vol. 82, Autumn 2008, p. 36.

⁴⁹ Daudelin, Jean and Dawson, Laura. 'A new chapter?'. *Canadian Foreign Policy*. Vol. 14, No. 3, Fall 2008, p. 7.

trade partners. The biggest concern of opponents of Canada's current strategy is that the country is wasting resources and time on pursuing agreements with relatively minor trade partners. However, many of Canada's agreements and negotiations are with countries that are also pursuing agreements with the United States, which significantly reduces the cost of negotiating. Secondly, Canada does not appear to have a scarcity of resources for negotiating deals – it is simultaneously negotiating an assortment of agreements with smaller Latin American economies, the European Union, Japan, India, and the United States, among others. Next, while it would be ideal if Canada could negotiate deals with the region's larger economies as well, a number of political stumbling blocks prevent any chance of fruitful talks. While the results of this study find that Canada's Americas trade strategy has generally led to weak overall export growth, high import growth and increased investment flows to countries with oil, gas and mining sectors – those results should not necessarily be interpreted as negative. The low export growth is at least partially related to the partner countries' simultaneous enforcement of agreements with other major economies and Canada's FTA strategy prevents Canada from losing even more market share in those countries. The high import growth can sometimes be beneficial for Canadian consumers and companies. Finally, while the potentially negative social outcomes outlined by groups like the Canadian Council for International Co-operation must be properly considered in formulating Canada's Americas trade strategy, they are beyond the scope of this paper and only trade and investment outcomes will be evaluated.

Common trade partners with the United States

As previously mentioned, Hart contends that Canada should redirect the resources being used on negotiating trade deals with minor trade partners and WTO talks towards the U.S.-

Canada trade relationship.⁵⁰ However, the Canadian government is not necessarily wasting resources on pursuing FTAs with the smaller Latin American economies. As Manger notes when talking with *Canadian Business*, Canada often seeks agreements with countries that have been negotiating deals with the U.S. As a result, negotiations are inexpensive and straightforward because Canada generally asks for the same terms of trade.⁵¹ Looking at the U.S.' free trade partners in Latin America, it is quite obvious that Canada has pursued the same partners. The U.S. has agreements in force with Mexico, Chile, Peru, and the DR-CAFTA countries (which include the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). The U.S has also signed agreements which are not yet in force with Colombia and Panama.⁵²

No lack of Canadian trade negotiation resources

Additionally, there is no evidence that there is a major scarcity of Canadian trade negotiation resources. Canada has enough resources that it does need to 'redirect' any of them. At present, it would appear as if Canada has enough resources to enhance its trade relationship with the U.S. as well as seek agreements with other minor and major partners simultaneously. In February 2011, Canada and the U.S. announced they were working towards an 'economic and security perimeter' initiative with the goal of strengthening border security, enhancing regulatory cooperation and speeding up trade.⁵³ At the same time, Canada is pursuing agreements with relatively minor partners; Singapore, Morocco, the Dominican Republic, CARICOM, and the

⁵⁰ Hart, Michael. 'Canadian Engagement in the Global Economy', Trade and Globalization Chapter in *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-being*. Institute for Research on Public Policy. 2007, p. 431.

⁵¹ Bao, Jane. 'A baby step to the south'. *Canadian Business*. Vol. 81, No. 12/13, Aug. 18, 2008, p. 21-28.

⁵² Organization of American States, Foreign Trade Information System. 'Information on United States of America: Trade Agreements'. http://www.sice.oas.org/ctyindex/USA/USAagreements_e.asp

⁵³ Government of Canada. 'Beyond the Border: a shared vision for perimeter security and economic competitiveness'. <http://www.borderactionplan-plandactionfrontalier.gc.ca/psec-scep/index.aspx?lang=eng>

Central America Four; ‘medium-sized’ partners like Turkey, South Korea and Ukraine; and large partners like the European Union and India.⁵⁴ Negotiations are also expected to begin with Japan as a joint study was announced in February 2011 by Canada and Japan to analyze the potential for an ‘Economic Partnership Agreement’.⁵⁵ Canada is pursuing free trade with whomever it can. Moreover, with the Doha Round talks blocked, the government does not need to direct many resources towards that initiative – leaving even more room for the pursuit of bilateral FTAs. With a majority mandate finally secured, the Conservative government has the ability to achieve their listed trade objectives without having to worry about losing political capital as much either. If Canada was to reach agreements with all of those minor and major free trade partners, it could reap huge benefits for the Canadian economy. Trade diversification will reduce the volatility of predominantly relying on one major trade partner and provide many new opportunities for economic growth. Additionally, as Fried points out, pursuing FTAs can improve Canada’s position in U.S.-based value chains if it signs agreements with the same countries as the U.S. and it prevents Canadian firms from losing their competitiveness vis-à-vis firms based in other countries with agreements in place.⁵⁶

Barriers to negotiations with other major regional economies

While it would be best if Canada could also negotiate with other major economies in the region like Brazil, Argentina and Venezuela, political realities block any potential progress.

⁵⁴ Department of Foreign Affairs and International Trade. ‘Negotiations and Agreements’. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/index.aspx>

⁵⁵ Department of Foreign Affairs and International Trade. ‘Joint Study on the Possibility of a Canada-Japan Economic Partnership Agreement.’ <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/japan-japon/index.aspx?lang=eng>

⁵⁶ Fried, Johnathan T. ‘Constructing Constructive Engagement’. Trade and Globalization Chapter in *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-being*. Institute for Research on Public Policy. 2007, p. 437-438.

Canada's chances of signing an FTA with Brazil have been hampered due to a somewhat antagonistic bilateral relationship over the past two decades. The Canada-Brazil trade relationship soured in the late 1990s and early 2000s as a result of a trade dispute concerning each country's aerospace industries. Canada's Bombardier and Brazil's Embraer were competing in the regional jet market and both companies received support from their respective governments. In 1996, Canada complained to the WTO that Brazil was in violation of the Subsidies Agreement and Brazil later responded with a counter-claim. The trade dispute spread into other areas in 2001 when Canada imposed a ban on Brazilian beef, which the Brazilians viewed as related to the jet dispute, and the Brazilians responded by suspending all agreements with Canada (the beef ban was lifted three weeks after). Moreover, in the early 2000s, Brazil had felt that Canadian foreign policy was always aligned with American foreign policy and that Canada did not respect Brazil's importance as a regional power. Both countries differed on how to go about the FTAA initiative as well with Canada being a champion of quick implementation and Brazil favouring first creating a 'Southern Bloc' to match the influence of the U.S. and Canada.⁵⁷ Exploratory FTA talks between Canada and Mercosur (a South American trade bloc consisting of Brazil, Argentina, Paraguay and Uruguay) were launched in early 2005 under Prime Minister Paul Martin but eventually fizzled out.⁵⁸ The Canada-Brazil trade relationship improved slightly later into the decade. In 2008, then Brazilian Ambassador to Canada Paulo Cordeiro de Andrade Pinto wrote that both countries had successfully resolved the jet and beef

⁵⁷ Canadian Foundation for the Americas. "Getting over the Jetlag": Canada-Brazil Relations 2001' (Policy Paper). 2001, p. 4-5.

⁵⁸ Canadian Foundation for the Americas. 'Mercosur: A Status Report and Prospects for Canada-Mercosur Relations' (Report). March 2005, p. 5. http://www.focal.ca/pdf/mercotur_FOCAL_mercotur-Canada%20relations%20prospects%20status_March%2014%202005_Ottawa.pdf

disputes.⁵⁹ However, Brazil still remains an elusive free trade partner for Canada. Randall explains that Brazil has shown little to no interest in negotiations with Canada because it considers the Canadian market too small and it has focused on relations with Asia and Europe to offset its dependence on trade with the U.S.⁶⁰

An individual Canada-Argentina FTA is unlikely – free trade between Canada and Argentina would most likely happen through a Canada-Mercosur agreement (as the 2005 exploratory talks set the precedent and the Mercosur countries have been working together in pursuing their trade agreements). In that arrangement, a successful agreement would obviously depend on convincing Brazil of the benefits of free trade with Canada (which as previously discussed would prove difficult). The Canadian Foundation for the Americas states that negotiating deals with Mercosur is difficult due to its basic structure: “Negotiating *en bloc* has often proved challenging for MERCOSUR given divergent interests and bilateral histories, as well as weaknesses of its own internal agenda”.⁶¹ Canadian protection of the dairy industry would also be an obstacle to FTA negotiations with Argentina.⁶² Meanwhile, signing an agreement with the left-leaning governments of Venezuela, Ecuador and Bolivia is a nearly impossible outcome. Venezuelan President Hugo Chavez has spearheaded the creation of the Bolivarian Alternative for the Americas (ALBA) in 2004 – an unconventional trade bloc whose stated goal is to achieve greater social welfare among the member countries rather than the type

⁵⁹ Cordeiro de Andrade Pinto, Paulo. ‘Canada-Brazil Relationship Much Improved and Evolving’. *FOCALPoint*. Vol. 7, No. 7, September 2008, p. 4.

⁶⁰ Randall, Stephen. ‘Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges’ (Report). Canadian International Council. August 2010, p. 9.

⁶¹ Canadian Foundation for the Americas. ‘Mercosur: A Status Report and Prospects for Canada-Mercosur Relations’ (Report). March 2005, p. 4. http://www.focal.ca/pdf/mercotur_FOCAL_mercotur-Canada%20relations%20prospects%20status_March%2014%202005_Ottawa.pdf

⁶² *ibid*, p. 7.

of trade liberalization found in a traditional free trade agreement. The current ALBA members include Venezuela, Cuba, Ecuador, Bolivia, Nicaragua, Dominica, St. Vincent and the Grenadines, and Antigua and Barbuda.⁶³

Mixed trade outcomes are not necessarily negative

Finally, the results of this study show that Canada's Americas trade strategy has led to relatively weak Canadian export growth, high import growth and increased Canadian FDI flows to countries with oil, gas and mining sectors. While some may construe high import growth as a negative result; it is not unambiguously so. For example, when Canadian mining firms ship metals to Canada from Latin America for refinement, it is merely a reflection of the global nature of value chains. A significant increase in cheap fruit from Chile or cheap coffee from Colombia benefits Canadian consumers. Canada's relatively weak export growth should not necessarily be taken as a sign that Canada's FTAs have failed to boost exports either. It is very well possible that exports would be much worse without the FTAs. For instance, if the United States signed agreements with Canada's current five regional free trade partners and Canada did not, Canadian wheat exporters would surely lose market share in face of American wheat growers as the product is virtually identical. However, there are likely some policy steps the Canadian government can pursue to try to encourage Canadian exporters, particularly SMEs, to better seize the opportunities made possible by the FTAs. More can probably be done to create a stronger enabling environment for the internationalization of domestic firms as well. Finally, while Canada's Americas strategy tends to yield low export growth and high import growth, if Canada's Americas strategy is simply viewed as one piece within its broader global trade strategy, those results may be inconsequential. If Canada follows through with its ongoing talks

⁶³ Alianza Bolivariana para los Pueblos de Nuestra America. '¿Que es el ALBA-TCP?'. <http://www.alianzabolivariana.org/modules.php?name=Content&pa=showpage&pid=2080>

with major Asian economies and the E.U., trade balances favouring Canada in those regions could offset the currently unfavourable Canada-Latin American partner trade balance.

EXISTING AGREEMENTS

The following section examines Canada's two oldest bilateral free trade agreements with Latin American countries (excluding Mexico): the Canada-Chile Free Trade Agreement and the Canada-Costa Rica Free Trade Agreement. It first presents each country's recent economic history and trade agreements, followed by a quick synopsis of the various perspectives on whether the agreement has been beneficial to Canada. Subsequently, this paper compares the growth in Canadian exports to each country after the FTA was signed with the predicted growth of exports had they continued at pre-FTA levels (using data from 1980 up until the 'in force' date of each agreement). A pre-FTA and post-FTA export growth comparison is also conducted for Canada's two main merchandise export sectors to each country, each country's total exports to Canada, and their main merchandise export sectors to Canada (service trade being quite modest between Canada and both countries). Additionally, the change in Canada's trade with each country as percentage of total trade with Latin America and the change in each country's trade with Canada as a percentage of total trade are also considered. Finally, a pre-FTA and post-FTA comparison is conducted for the growth in Canadian FDI flows to each country followed by the change in Canadian FDI flows to each country as a percentage of total flows to Latin America.⁶⁴

⁶⁴ Investment in Canada from Chile, Costa Rica, Colombia, Peru and Panama is very negligible and will not be examined in this report. In 2007, 70.5% of Latin American investment in Canada came from Brazil and 27% from the Caribbean offshore financial centres (Bahamas, Barbados, Bermuda, British Virgin Islands and Cayman Islands). (Economic Commission for Latin America and the Caribbean (ECLAC). 'Chapter 4: Canadian FDI in Latin America and the Caribbean' in *Foreign Investment in Latin America and the Caribbean*. 2007, p. 143.)

CANADA-CHILE FREE TRADE AGREEMENT

Chile's economy is considered to be a regional success story. In 1973, the dictator Augusto Pinochet overthrew the government of leftist President Salvador Allende. Using the advice of University of Chicago economists, Pinochet began to privatize key economic sectors and reduce barriers to trade and investment.⁶⁵ Upon the country's return to democracy in 1990

Chile Background Information

Area:	756,102 sq km
Population:	16,746,000
Government:	Democratic Republic
Capital City:	Santiago
Chief of State:	President Sebastian Pinera
GDP (nominal):	US\$199.2 billion
GDP per capita:	US\$14,700 (PPP)
Import partners:	US (22%), China (13%), Argentina (10%), Brazil (6%)
Export partners:	China (16%), US (11%), Japan (9%), South Korea (6%)
Currency:	Chilean peso
Unemployment Rate:	9.6%
Population below poverty line:	18.2%

Source: CIA World Factbook

under President Patricio Aylwin, economic reform continued and growth averaged 8% between 1991 and 1997. Chile is now considered to have the strongest financial institutions on the continent and, in December 2009, it was invited to become the first South American member of the OECD.⁶⁶ Between 1990 and 2005, due to its strong growth, Chile managed to halve its poverty rate to 18%. However, Chile still faces high economic inequality and other challenges such as overdependence on natural resources and a rigid labour market.⁶⁷

The Canada-Chile FTA came into force on July 5, 1997 and it was Canada's first agreement with a South American nation and Chile's first bilateral FTA. Chile is now among the world's most open countries to free trade. According to the CIA World Factbook, Chile now has

⁶⁵ Smith, Geri. 'A Lopsided Economic Miracle'. Business Week. No. 3953, October 3, 2005, p. 56.

⁶⁶ 'CIA World Factbook. Chile'. December 29, 2010. <https://www.cia.gov/library/publications/the-world-factbook/geos/ci.html>

⁶⁷ Smith, Geri. 'A Lopsided Economic Miracle'. Business Week. No. 3953, October 3, 2005, p. 56.

57 partial or full free trade agreements.⁶⁸ Chile has signed free trade agreements with other OECD economies including the United States (2003), South Korea (2003), Japan (2007), and Australia (2008). It also has agreements with Mexico (1998), the European Free Trade Association (2003), China (2005), Peru (2006), and Colombia (2006), among other countries.⁶⁹ Evidently, Canada is no longer the only major economy with preferential access to the Chilean market.

Canada pursued the agreement for a variety of reasons. Wu lists the following motives: 1) after the U.S. withdrawal from NAFTA negotiations with Chile, Canada saw the deal as an opportunity to get an early advantage over the U.S. in terms of market access; 2) protection of the significant amount of Canadian investment in Chile (largely in the mining sector); 3) Chile was seen as the most open economy in the region and the ideal market for Canada to begin expanding its trade relations in South America; and 4) access to Chile's natural resources.⁷⁰ Wu states that Chile saw the agreement as a 'back door to the U.S.', it was worried about trade diversion towards Mexico due to NAFTA, and it wanted to promote foreign direct investment from Canada as well as the U.S. and Europe. Writing in 2002, Wu came to the conclusion that the economic impact of the agreement was limited but the potential for significant growth was high.⁷¹ Stephen S. Poloz of Export Development Canada remarks that, since the U.S. signed its own FTA with Chile in 2003, Canada has lost its early advantage of being the only major

⁶⁸ CIA World Factbook. 'Chile'. December 29, 2010. <https://www.cia.gov/library/publications/the-world-factbook/geos/ci.html>

⁶⁹ Organization of American States, Foreign Trade Information System. 'Information on Chile: Trade Agreements'. http://www.sice.oas.org/ctyindex/CHL/CHLAgreements_e.asp#Signed

⁷⁰ Wu, Terry. 'Canada-Chile Free Trade Agreement: An Analysis'. *Latin American Business Review*. Vol. 3, No. 3, 2002, p. 61.

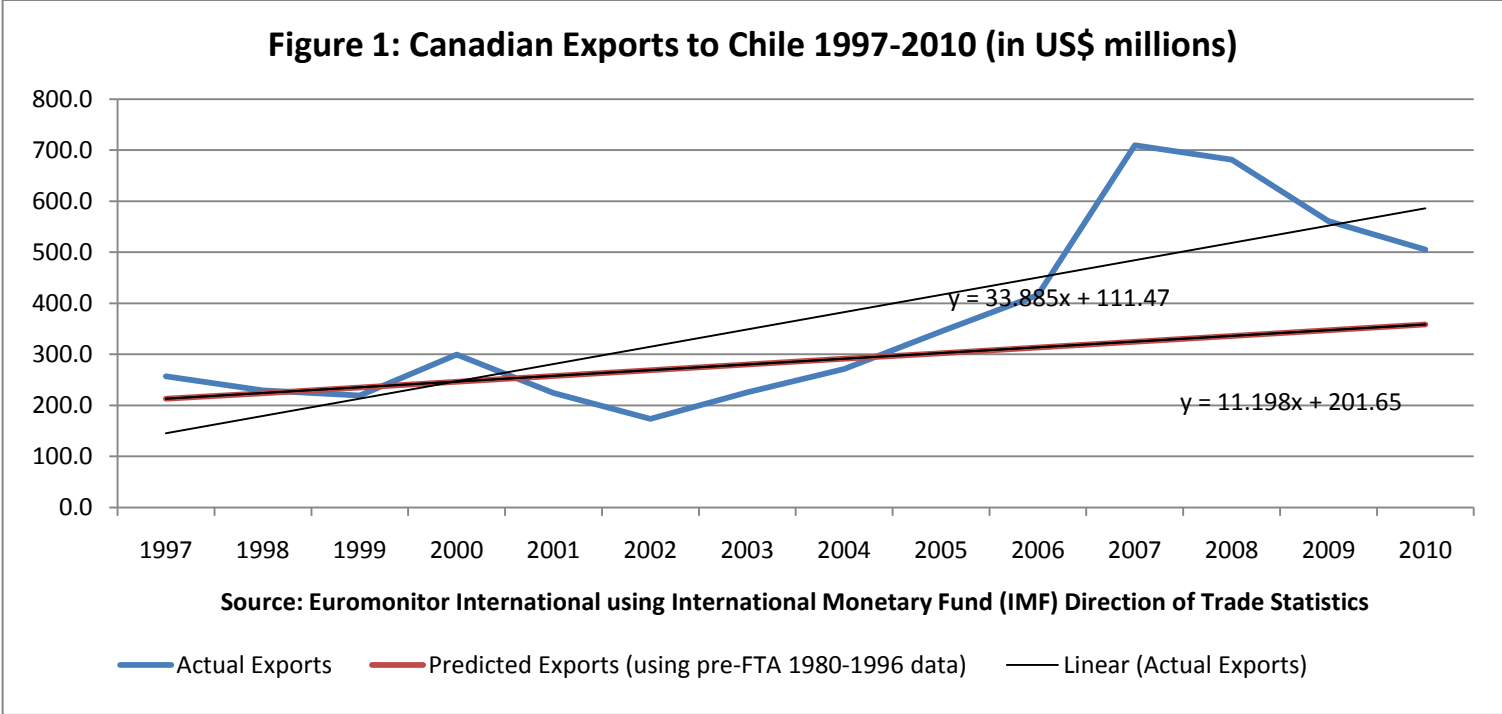
⁷¹ *ibid*, p. 72.

economy with a FTA with Chile. However, Canadian companies were able to seize that early advantage by developing strong relationships and making smart investments in the interim.⁷² Meanwhile, Campbell argues that the deal has done little to encourage Canadian businesses to increase exports to Chile. Looking at Canadian exports between 1995 and 2005, she notes that exports barely increased over the course of the decade and service exports actually slightly decreased. She surveys a number of Canadian companies who signed deals with Chilean firms during the 1998 Team Canada trade mission and finds that few of the companies saw real sales increases. Campbell also consulted William Dymond, former Canadian trade negotiator, who found that the agreement was really about protecting and bolstering Canadian investment in the Chilean mining sector rather than trade.⁷³ However, Dymond wrote a year later that the agreement was beneficial to Canada and Chile as it allowed them to further integrate into global value chains and bilateral trade did increase as a result of the FTA. While Chilean exporters seized the opportunity more so than Canadian exporters, Canadian consumers received better access to Chilean fruits and vegetables and Canadian investors received better protection of their ventures in Chile's mining industry. He still found that Canadian investment was bolstered principally in the mining sector although it also spread to the transport, financial and chemical product sectors.⁷⁴

⁷² Poloz, Stephen. 'Free Trade with Chile: What has it delivered?' (Report). Export Development Canada. June 28, 2006. http://www.edc.ca/english/docs/ereports/commentary/publications_11306.htm

⁷³ Campbell, Christina. 'Bilateral free trade pacts don't always live up to the hype'. *Canadian Business*. Vol. 79, No. 18, September 2006, p. 31-32.

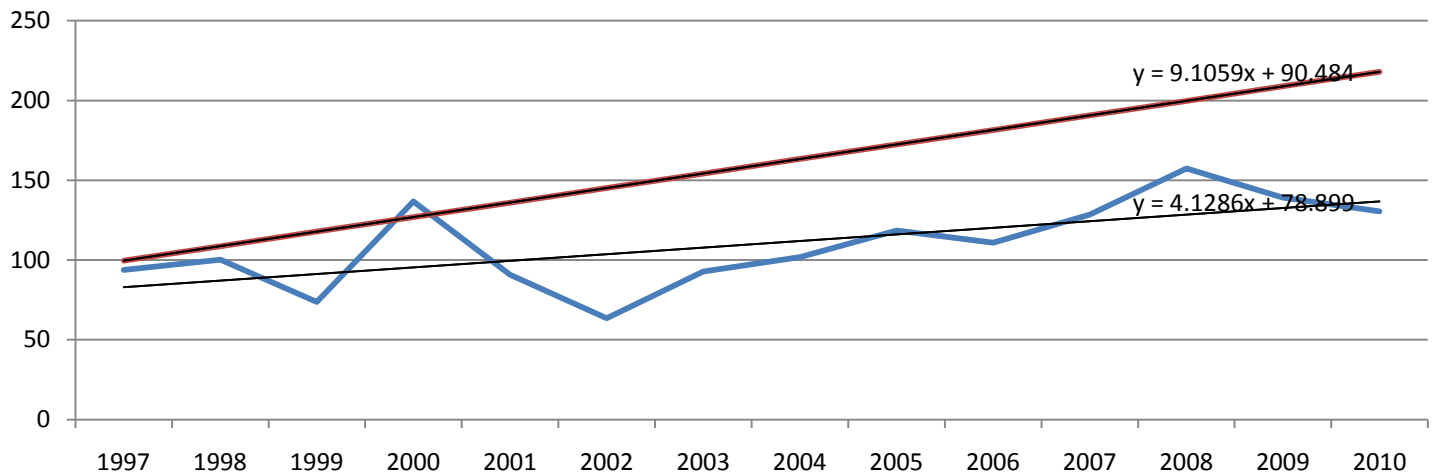
⁷⁴ Dymond, Bill. "Dix années de libre-échange Canada-Chili: Au delà des statistiques." Chapter 5 in *Les Recherches en politique commerciale 2007*. Department of Foreign Affairs and International Trade. 2007, p. 195. http://www.dfait-maeci.gc.ca/economist-economiste/assets/pdfs/research/TPR_2007/Chapter5-Dymond-fr.pdf



Comparing the 1980-1996 pre-FTA trendline for Canada’s exports to Chile and the actual trade flows, the FTA does not appear to have been a major catalyst for increasing Canada’s exports to Chile. In 1999 and between 2001 and 2004, actual exports to Chile dropped below the pre-FTA trendline. That means that exports dropped below the predicted level of exports had they grown at the same rate as between 1980 and 1996. Campbell notes that exports barely increased as of 2005; however, this updated data shows that export growth did sharply increase between 2006 and 2007, when exports rose from US\$416.5 million to US\$709.5 million (before dropping off again around the time of the global financial crisis).⁷⁵ The mid-2000s increase is reflective of a multi-year strengthening of Canada’s three biggest exports to Chile; coal, wheat and mining, oil and gas machinery (see Appendix C, Figure 38: Top 5 Canadian Exports to Chile).

⁷⁵ Euromonitor International, using IMF Direction of Trade Statistics and trade sources/national statistics. Accessed April 25, 2011. <http://www.portal.euromonitor.com.proxy.library.carleton.ca/Portal/Statistics.aspx>

Figure 2: Canadian Machinery and Electrical Equipment Exports to Chile (in C\$ millions)

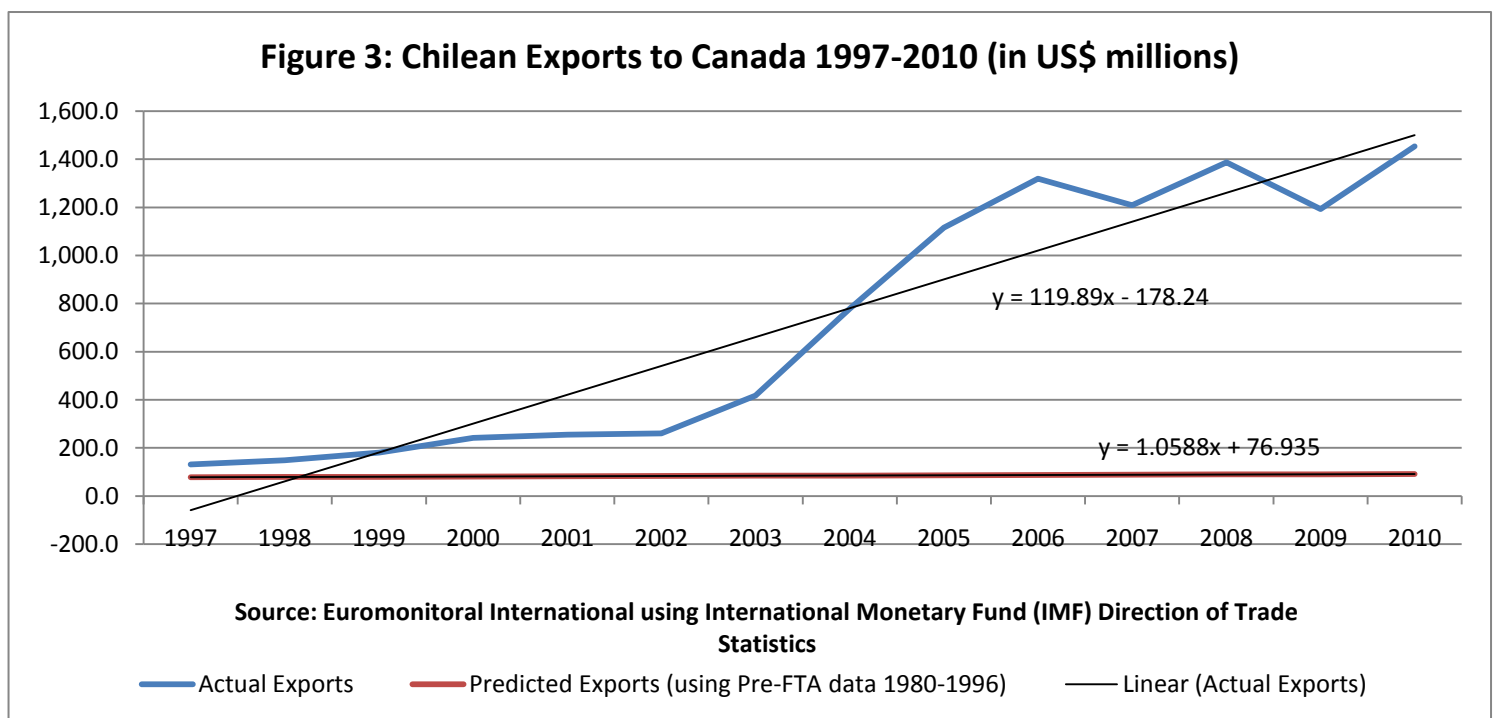


Source: Statistics Canada, Canadian International Merchandise Trade Database

— Actual Exports — Predicted Exports (using Pre-FTA 1989-1996 data) — Linear (Actual Exports)

According to Statistics Canada’s Canadian International Merchandise Trade Database data for 2010, machinery and electrical equipment exports are Canada’s main exports to Chile, representing 24% of all merchandise exports (see Appendix B, Figure 29: Canadian Merchandise Exports to Chile 2010). Within that sector, oil, gas and mining machinery is the major sub-sector (see Appendix C, Figure 38: Top 5 Canadian Exports to Chile). Figure 2 shows that machinery and electrical equipment exports to Chile increased at a markedly slower pace than had they continued to grow at the same rate as the 1989-1996 pre-FTA trendline. That result is surprising considering the fact that Canadian mining activity was supposed to increase after the FTA and therefore more Canadian mining machinery would be shipped to Chile. However, it is likely that mining machinery exports simply increased at a faster rate in the early 1990s as Canadian mining companies first began to heavily invest in the Chilean market at that time. In 1990, the Chilean government introduced a law which eased the sale of mining properties to foreign stakeholders –

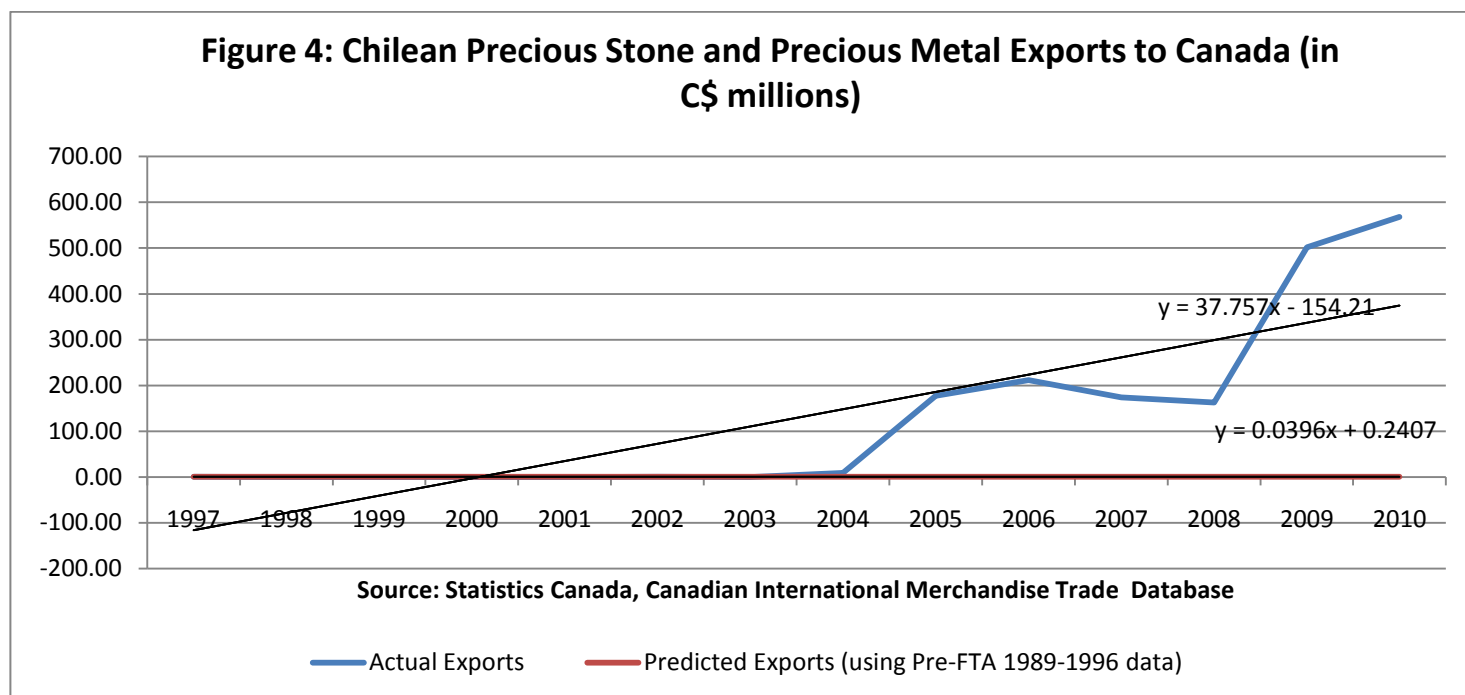
an opportunity which Canadian firms, in particular, seized.⁷⁶ Meanwhile, Canada's second most important export, base metals (iron, copper, nickel, aluminum, zinc, etc.), representing 14% of merchandise exports did increase roughly twice as quickly as predicted using the pre-FTA trendline (see Appendix B, Figure 30: Canadian Base Metal Exports to Chile). Again, that is a somewhat surprisingly result considering the fact that Chile is also a major producer of base metals, especially copper. However, Canada's main base metal export to Chile is iron and steel while Chile's main base metal exports to Canada are non-ferrous metals such as copper, lead, nickel and zinc (see Appendix C, Figure 38: Top 5 Canadian Exports to Chile and Appendix C, Figure 39: Top 5 Chilean Exports to Canada).



Next, it is quite clear that Chilean exporters significantly benefited from the Canada-Chile FTA. In 2010, Chilean exports were roughly over fourteen times higher (US\$1454.1

⁷⁶ Gordon, Todd and Webber, Jeffrey. 'Imperialism and Resistance: Canadian mining companies in Latin America'. *Third World Quarterly*. Vol. 29, No. 1, 2008, p. 74.

million) than what they would have been had they increased at the same rate as the 1980-1996 period (US\$91.7 million).⁷⁷ The conclusion can be definitively drawn that the Canada-Chile FTA helped boost Chilean exports to Canada.

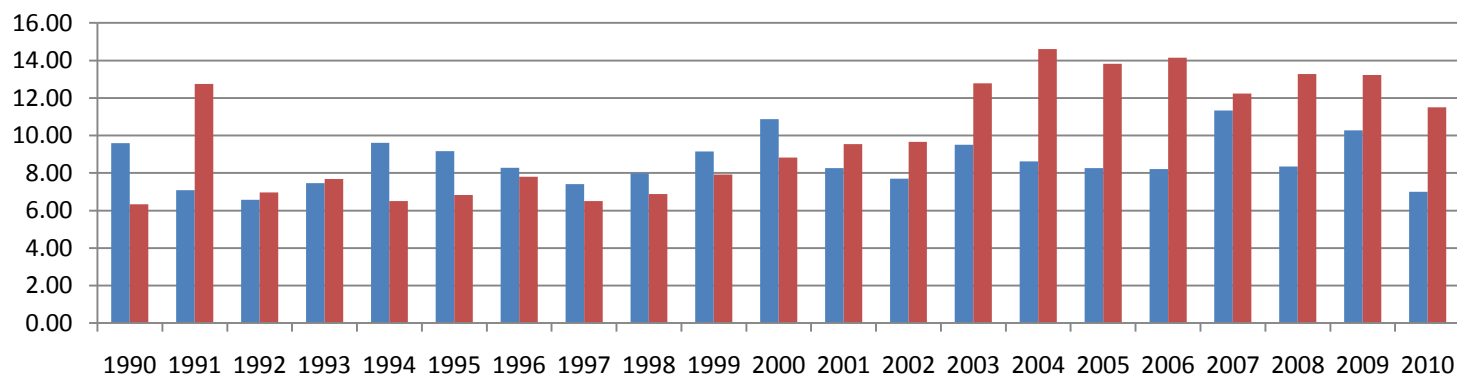


Chilean precious stone and metal exports grew substantially faster than predicted using the pre-FTA trendline, beginning in the middle of the 2000s. Chilean precious stone and metal exports, predominantly gold exports, represented 30% of Chilean merchandise exports to Canada by 2010 (see Appendix B, Figure 31: Chilean Merchandise Exports to Canada 2010). Chile's second biggest merchandise export group, vegetable products (20% of merchandise exports; Appendix B, Figure 31) also grew much faster than predicted using the pre-FTA trendline (see Appendix B, Figure 32: Chilean Vegetable Product Exports to Canada). Additionally, Chilean base metal exports to Canada, which constitute 18.5% of total merchandise exports, exploded

⁷⁷ Euromonitor International, using IMF Direction of Trade Statistics and trade sources/national statistics. Accessed April 25, 2011. <http://www.portal.euromonitor.com.proxy.library.carleton.ca/Portal/Statistics.aspx>

shortly after the FTA was signed (see Appendix B, Figure 33: Chilean Base Metal Exports to Canada). Therefore, a variety of Chile’s sectors benefited from the FTA.

Figure 5: Canada's Trade with Chile as a Percentage of Total Latin American Trade (excluding Mexico)

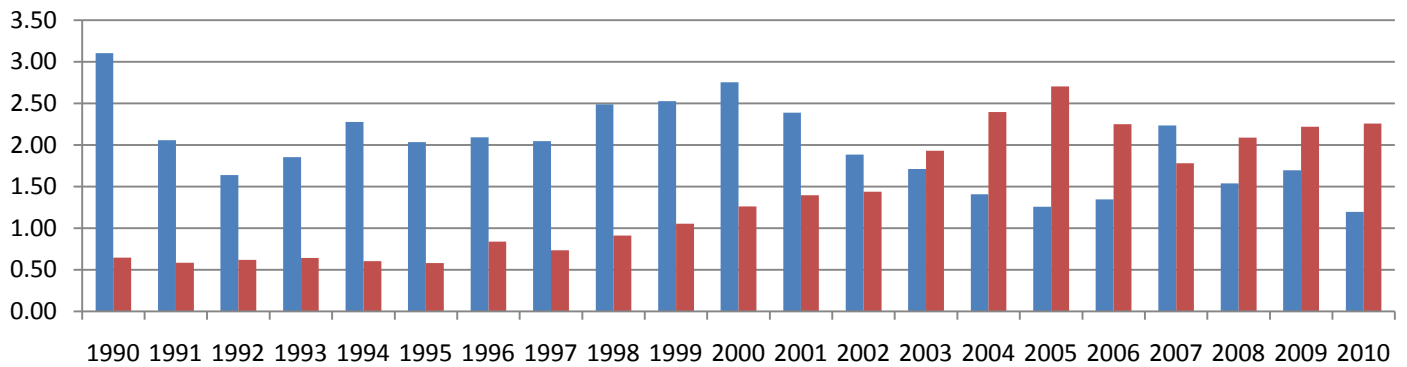


Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Canadian exports to Chile as a percentage of total exports to Latin America (excluding Mexico)
 ■ Imports from Chile as a percentage of total imports from Latin America (excluding Mexico)

In 2010, Canadian exports to South America, Central America and the Caribbean represented only 1.86% of total Canadian exports (Canadian exports to Mexico represented 1.27%; see Annex A, Figure 26). Figure 5 shows that Chile’s share of Canadian exports to South America, Central America and the Caribbean has changed little since the agreement was signed. In 1997, total Canadian exports to Chile as a percentage of exports to the region represented 7.41% while it still only represented 7.01% in 2010. Canadian imports from Latin America and the Caribbean excluding Mexico reached 4% for the first time in 2010 (see Appendix A, Figure 27). Canadian imports from Chile as a percentage of total Canadian imports from the region have appreciably increased since the agreement was reached in 1997. When the deal came into force, Chile’s share of Canadian imports from Latin America and the Caribbean represented 6.5% while that percentage had nearly doubled by 2003.

Figure 6: Chile's Trade with Canada as a Percentage of Total Trade



Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Imports from Canada as a percentage of total Chilean imports
■ Exports to Canada as a percentage of total Chilean exports

Despite the FTA, Canada's importance as an import source for Chile has diminished since the deal was struck in 1997. Canada's import share of total Chilean imports was 1.20% in 2010 compared with 2.05% in 1997. In the first few years of the agreement, Canada's share did increase; peaking at 2.75% in 2000, but its share has steadily declined since that time. A partial cause for the decline could be the fact that Canada lost its early advantage over the United States in early 2004 when the U.S.-Chile FTA came into force (as well as with other competitor nations as Chile began a major free trade campaign in the 2000s). Meanwhile, exports to Canada as a percentage of total Chilean exports did gradually increase from 0.73% in 1997 to 2.26% in 2010. That trend corresponds with Chile's growing share of Canadian imports from Latin America.

Overall, the data suggests that the FTA demonstrably aided Chilean exporters. Chile's total exports increased much faster than during the pre-FTA period and Chile's three largest export groups – precious metals, vegetable products (including fruits) and base metals – all increased quicker than during the pre-FTA period. In terms of precious metals and base metals, two factors help explain their rise. One factor has been rising commodity prices in general. The

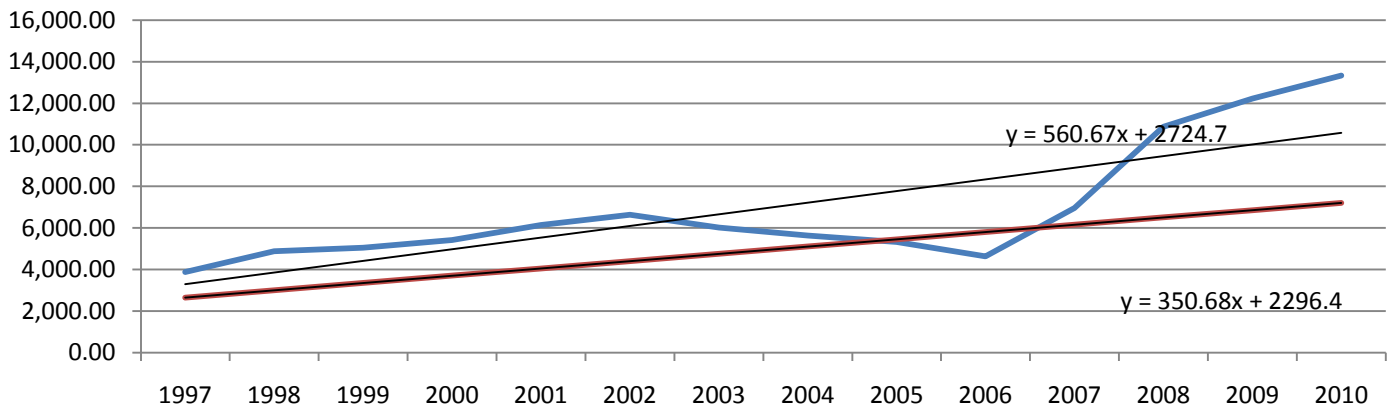
second factor is more Canadian mining company investment and activity since the FTA has resulted in more metals being shipped to Canada for refining.⁷⁸ Chile is also considered a country which is naturally inclined to export as its domestic demand is too small to sustain meaningful long-term growth on its own. The Canadian economy is similar in nature although it can rely on simply exporting to its next-door neighbour. Chile has maintained high GDP growth by transforming its economy into one which is adept at exporting to other major economies in the Americas, Asia and Europe.⁷⁹ Meanwhile the FTA has contributed relatively little to Canadian export growth in the Chilean market. A number of reasons have been used to explain why Canadian exports have not grown. As previously mentioned, Chile has signed 57 partial or full free trade agreements since the deal with Canada which may help explain the decline in Canada's share of total Chilean imports. Canada is no longer the only country with preferential access to the Chilean market. Campbell and her consulted experts state that early on, a strong Canadian dollar as well as the late 1990s Argentine financial crisis made competitor Argentine goods much cheaper and competitive vis-à-vis Canadian goods. Additionally, the relatively small size of the Chilean economy has been blamed as it may lack the demand capacity necessary for an increase in Canada's primary and industrial goods.⁸⁰

⁷⁸ Randall, Stephen. 'Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges' (Report). Canadian International Council. August 2010, p. 9, p. 21.

⁷⁹ Dymond, Bill. "Dix années de libre-échange Canada-Chili: Au delà des statistiques." Chapter 5 in *Les Recherches en politique commerciale 2007*. Department of Foreign Affairs and International Trade. 2007, p. 182.
http://www.dfait-maeci.gc.ca/economist-economiste/assets/pdfs/research/TPR_2007/Chapter5-Dymond-fr.pdf

⁸⁰ Campbell, Christina. 'Bilateral free trade pacts don't always live up to the hype'. *Canadian Business*. Vol. 79, No. 18, September 2006, p. 31-32.

Figure 7: Canadian FDI Flows to Chile 1997-2010 (in C\$ millions)



Source: CANSIM table v7117708

— Actual Outward FDI Flows — Predicted Outward FDI Flows (using Pre-FTA 1987-1996 data)

After the FTA was signed, Canadian FDI outflows to Chile grew at a relatively quicker pace than during the pre-FTA 1987-1996 period. In 2010, Canadian FDI peaked at C\$13,341 million – almost double the predicted C\$7,205 million using 1987-1996 data.⁸¹ As previously mentioned, Wu states that the FTA was signed in order to protect the already noteworthy amount of Canadian investment in Chile as well as gain even better access to Chile’s natural resources.⁸² The agreement seems to have accomplished those twin goals as Dymond notes that Canadian FDI has primarily flowed to the mining sector (and to a lesser degree, the financial, transport and chemical product sectors).⁸³ Some of the major Canadian mining firms investing in Chile include Barrick Gold, Teck Cominco, Goldcorp, Kinross Gold and Yamana Gold. Major non-mining firms investing in Chile include Brookfield Asset Management, Scotiabank, Methanex

⁸¹ Statistics Canada’s CANSIM database. Table v7117708. Accessed April 20, 2011.

⁸² Wu, Terry. ‘Canada-Chile Free Trade Agreement: An Analysis’. *Latin American Business Review*. Vol. 3, No. 3, 2002, p. 61.

⁸³ Dymond, Bill. “Dix années de libre-échange Canada-Chili: Au delà des statistiques.” Chapter 5 in *Les Recherches en politique commerciale 2007*. Department of Foreign Affairs and International Trade. 2007, p. 195. http://www.dfait-maeci.gc.ca/economist-economiste/assets/pdfs/research/TPR_2007/Chapter5-Dymond-fr.pdf

and PotashCorp.⁸⁴ When the FTA was first signed, the memory of Chile's tumultuous past under Pinochet was still fairly recent and the FTA's investment chapter was seen to offer investors better protection should the country's political turmoil return.⁸⁵ The FTA's investment chapter was largely modelled on NAFTA's investment chapter. It offered a number of new protections to Canadian investors including the same level of protection granted to domestic investors, protection from indirect or direct expropriation (and compensation rights), protection of money transfers relating to an investment, and an investor-state dispute arbitration mechanism.⁸⁶ The Canadian Council on International Co-operation asserts that investment chapters really do promote increased investor activity and private investors tend to take full advantage of investor rights (NAFTA's investor-state arbitration mechanism saw a proliferation of investors seeking compensation for alleged violation of their investment rights).⁸⁷ The investment chapters of Canada's FTAs are also believed to help create a better investment climate by influencing domestic laws and regulations through the promotion of good governance principles.⁸⁸

⁸⁴ Economic Commission for Latin America and the Caribbean (ECLAC). 'Chapter 4: Canadian FDI in Latin America and the Caribbean' in *Foreign Investment in Latin America and the Caribbean*. 2007, p. 174.

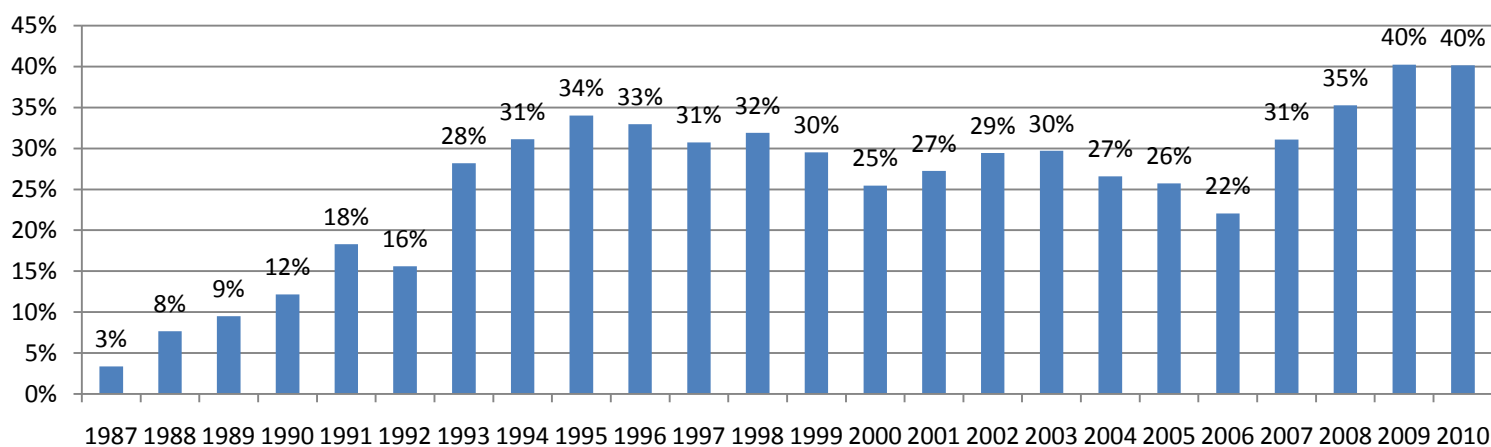
⁸⁵ Campbell, Christina. 'Bilateral free trade pacts don't always live up to the hype'. *Canadian Business*, Vol. 79, No. 18, September 2006, p. 31-32.

⁸⁶ Department of Foreign Affairs and International Trade. 'Canada-Chile Free Trade Agreement – Part Three – Investment, Services and Related Matters'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/chile-chili/chap-g26.aspx?lang=en>

⁸⁷ 'Making a Bad Situation Worse: An Analysis of the Text of the Canada-Colombia Free Trade Agreement' (Report). Canadian Council on International Co-operation, Canadian Association of Labour Lawyers, Canadian Labour Congress, and Canadian Centre for Policy Alternatives. 2009, p. 18.

⁸⁸ Export Development Canada Economics. 'Peru Country Overview'. December 2010, p. 2. http://www.edc.ca/english/docs/gperu_e.pdf

Figure 8: Canadian FDI Flows to Chile as a percentage of total Canadian FDI Flows to Central and South America



Source: CANSIM table v7117708

In terms of Chile’s importance as a destination for Canadian FDI in comparison with other Central and South American countries, it has increased very significantly since Chile’s return to democracy in 1990. Only 3% of total Canadian FDI to the region went to Chile in 1987 in comparison with 40% in 2010 (total Canadian FDI to Central and South America representing 5.4% of all Canadian FDI in 2010; see Appendix A, Figure 28). It rose sharply prior to the signing of the FTA and by 1997, it already accounted for 31%. In 2009 and 2010, Chile’s importance as a Canadian FDI destination reached its highest level ever.

Overall, it can be concluded that since the Chile-Canada FTA came into force, Chilean exports to Canada have risen much quicker than had they followed the pre-FTA trendline and now represent a notably larger share of Chile’s total exports. The FTA appears to have been advantageous for most of Chile’s main export sectors to Canada. The increase in Chilean exports is partially tied to an increase in commodity prices and increasing shipments of metals to Canada for refining. While it was demonstrably beneficial for Chilean exporters, the FTA does not appear to have acted as a catalyst for boosting Canadian exports. Canada’s exports have only

modestly increased and have gradually lost Chilean market share, likely to due to aggressive free trade promotion on the part of Chile and its small market size. If the main purpose of the agreement was to secure and promote Canadian investment in the mining sector, as Wu and Dymond both contend, then that objective was certainly achieved as Chile is an increasingly important destination for Canadian investors, representing 40% of all Canadian FDI to the region in 2010.

CANADA-COSTA RICA FREE TRADE AGREEMENT

Costa Rica is also considered to be a Latin American success story in terms of its economic and political development. Costa Rica is a stable nation, having officially abolished its armed forces in 1949 (it still has a public security force), and the country has the region's longest democratic tradition.⁸⁹ The country's democratic legacy and its relatively high-skilled workforce

Costa Rica Background Information

Area:	51,100 sq km
Population:	4,516,220
Government:	Democratic Republic
Capital City:	San José
Chief of State:	President Laura Chinchilla
GDP (nominal):	US\$51.55 billion
GDP per capita:	\$11,400 (PPP)
Import partners:	US (45%), Mexico (8%), Venezuela (6%), China (5%)
Export partners:	US (33%), Netherlands (13%), China (12%), Mexico (4%)
Currency:	Costa Rican colones
Unemployment Rate:	7.8%
Population below poverty line:	16%
Source:	CIA World Factbook

have made it an attractive market for foreign investment.⁹⁰ Notably, semi-conductor giant Intel began to heavily invest in Costa Rica in 1996, based on the Figueres government's investment

⁸⁹ CIA World Factbook. 'Costa Rica'. <https://www.cia.gov/library/publications/the-world-factbook/geos/cs.html>

⁹⁰ The Economist Intelligence Unit. 'Country Profile 2008: Costa Rica'. www.eiu.com

promotion plan.⁹¹ As of 2006, Intel accounted for 4.9% of Costa Rica's entire GDP and for 20% of all of the country's exports.⁹²

Like Chile, Costa Rica has been among Latin America's biggest proponents of free trade. The Canada-Costa Rica FTA entered into force on November 1, 2002.⁹³ Prior to the agreement with Canada, Costa Rica had signed a free trade agreement with Mexico (1994); a regional agreement between itself and the Central American nations of El Salvador, Guatemala, Honduras and Nicaragua, and the Dominican Republic (1998); an agreement between itself, the aforementioned Central American nations and Chile (1999); and a similar agreement with Panama (2002). In 2004, Costa Rica further signed an agreement with the CARICOM countries and then DR-CAFTA - the agreement between the Central American countries, the Dominican Republic and the United States - was also signed. Most recently, in April 2010, Costa Rica signed agreements with China and Singapore.⁹⁴ Once again, Canada is not the only major non-Latin American country with preferential access to the Costa Rican market.

In 2007, the Costa Rican government conducted a five-year review of the Canada-Costa Rica free trade agreement. The review concluded that during the first five years of its existence, Costa Rican exports to Canada grew at a reasonable pace while imports from Canada grew at a more moderate rate. It also noted that Canada's importance as a source of FDI to Costa Rica was

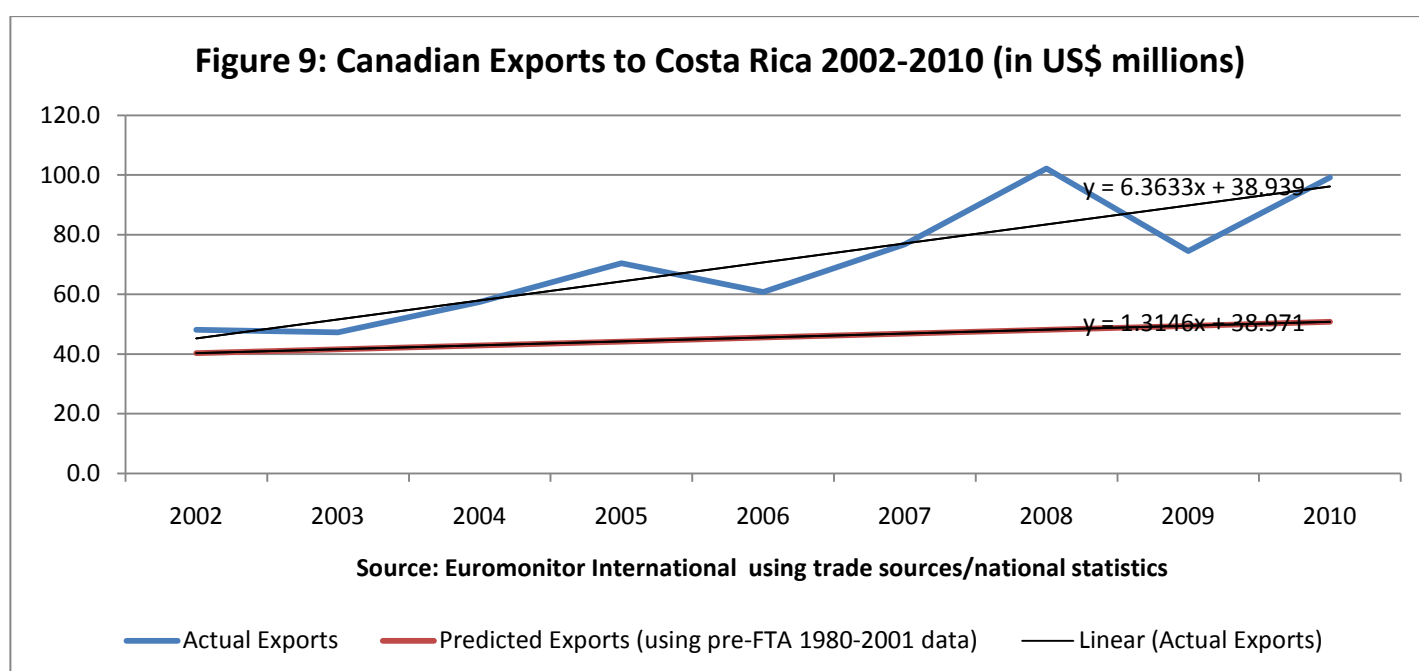
⁹¹ Nelson, Roy. 'Meeting the Challenge of Globalization in Costa Rica'. *Thunderbird International Business Review*. Vol. 50, No. 1, Jan/Feb 2008.

⁹² 'Intel supone el 4,9 por ciento del PIB de Costa Rica'. *La Economista*. June 10, 2006.
<http://eleconomista.es/empresas-finanzas/noticias/81837/10/06/Intel-supone-el-49-por-ciento-del-PIB-de-Costa-Rica.html>

⁹³ Department of Foreign Affairs and International Trade. 'Canada-Costa Rica Free Trade Agreement'.
<http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/costarica/index.aspx?lang=en>

⁹⁴ Organization of American States, Foreign Trade Information System. 'Information on Costa Rica: Trade Agreements'. http://www.sice.oas.org/ctyindex/CRI/CRIAgreements_e.asp

growing and, in 2006, Canada was the second largest source of FDI behind only the United States.⁹⁵ Lavoie-Evans points out that Canada was more interested in signing the Costa Rica-Canada free trade agreement for strategic reasons rather than simply economic objectives, considering Costa Rica is a very small market. It satisfied Canada's goal of trying to sign more FTAs with countries in the Americas and helped further the Free Trade Area of the Americas initiative.⁹⁶ The main objectives for Costa Rica were considered to be attracting more Canadian investment and increasing Canadian support for the tourism industry.⁹⁷



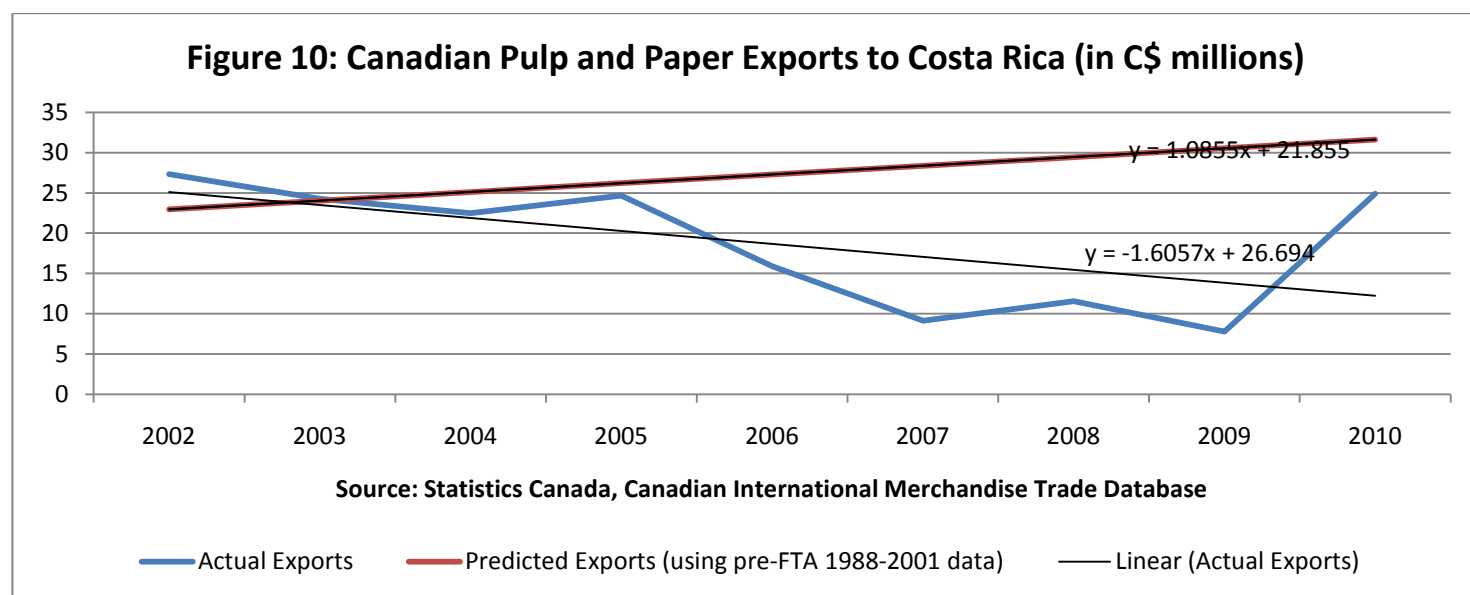
The Canada-Costa Rica FTA appears to have slightly helped increase Canadian exports to Costa Rica. Between 2002 and 2010, Canadian exports to Costa Rica increased at a quicker

⁹⁵ 'Cinco Años del Tratado de Libre Comercio entre Costa Rica y Canada'. Gobierno de Costa Rica – Ministerio de Comercio Exterior. 2007, p. 5. http://www.sice.oas.org/TPD/CAN_CRI/Studies/5yearreview_s.pdf

⁹⁶ Lavoie-Evans, Emma. 'Canada's Free Trade Agreements with Latin America' (Report). North-South Institute. May 2010, p. 8.

⁹⁷ Lizano, Eduardo. 'La politica de comercio exterior de Costa Rica'. Academia de Centroamerica. August 2001.

pace than predicted using pre-FTA 1980-2001 data. In 2010, Canadian exports to Costa Rica reached US\$99.2 million – which is nearly double the predicted amount of US\$50.8 million.⁹⁸

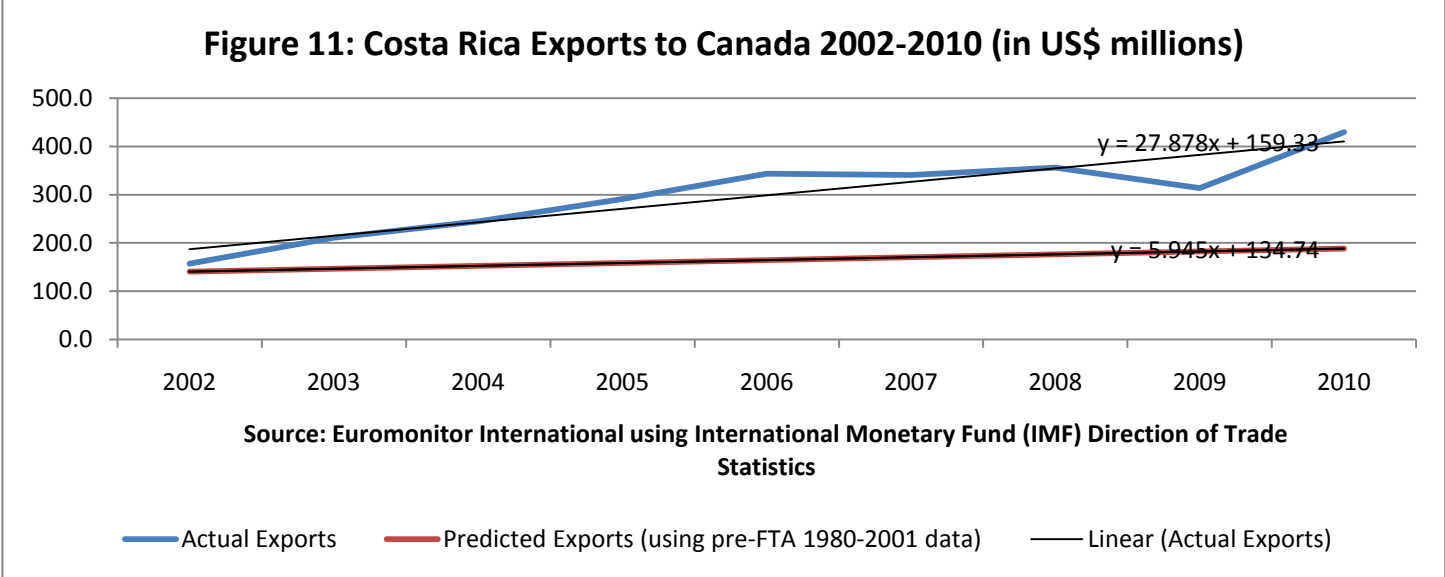


Canada’s pulp and paper exports to Costa Rica accounted for 25% of merchandise exports in 2010 (Appendix B, Figure 34: Canadian Merchandise Exports to Costa Rica 2010). As visible in Figure 10, pulp and paper (mainly newsprint) exports mostly declined after the FTA was signed - except for a big boost between 2009 and 2010 – which means export growth was much worse than the marginal growth predicted using the pre-FTA trendline. The fact that Canadian pulp and paper exports have declined over the past decade may be related to a general sectoral slump. Canada's paper manufacturing industry experienced eight successive years of losses from 2002 to 2010 due to the continuing digitization of information.⁹⁹ Meanwhile, Canada’s second biggest export, vegetable products (22% of exports, Appendix B, Figure 35),

⁹⁸ Euromonitor International, using IMF Direction of Trade Statistics and trade sources/national statistics. Accessed April 25, 2011. <http://www.portal.euromonitor.com.proxy.library.carleton.ca/Portal/Statistics.aspx>

⁹⁹ Paper Advance. ‘Canada’s Paper Industry to Post Profits for First Time Since 2002’. May 18, 2011. <http://www.paperadvance.com/news/industry-news/297-canadas-paper-industry-to-post-profits-for-first-time-since-2002-.html>

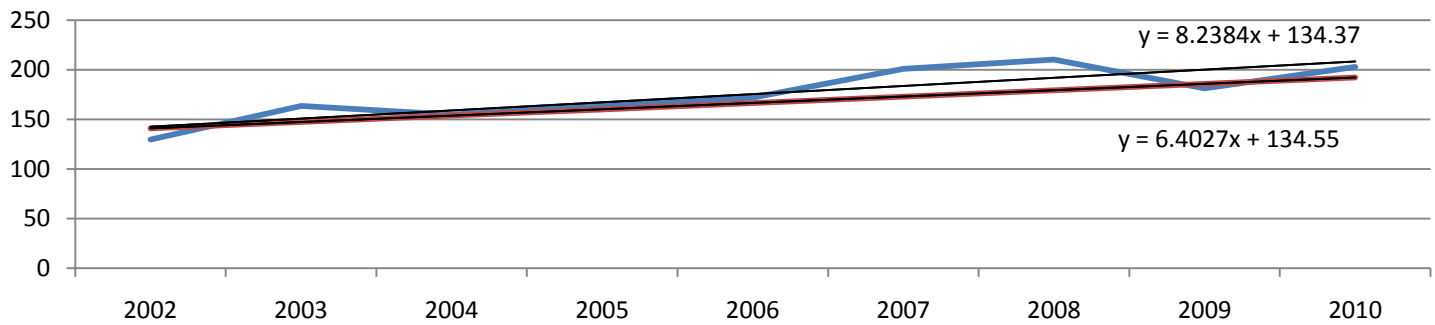
did grow after the FTA was signed – but still slower than predicted using the pre-FTA trendline (Appendix B, Canadian Vegetable Product Exports to Costa Rica). Canada’s two most important exports to the country did not receive a boost from the FTA, thus Canada’s slight overall export growth since the agreement resulted from a general increase among Canada’s more minor exports.



Comparing actual Costa Rican exports to Canada with the pre-FTA trendline shows that the Canada-Costa Rica FTA was also slightly beneficial for Costa Rican exporters. If Costa Rican exports to Canada had increased at the same pace as the 1980-2001 period, they would have been roughly US\$188 million in 2010 compared with the actual amount of US\$430 million.¹⁰⁰

¹⁰⁰ *ibid.*

Figure 12: Costa Rica Vegetable Product Exports to Canada (in C\$ millions)

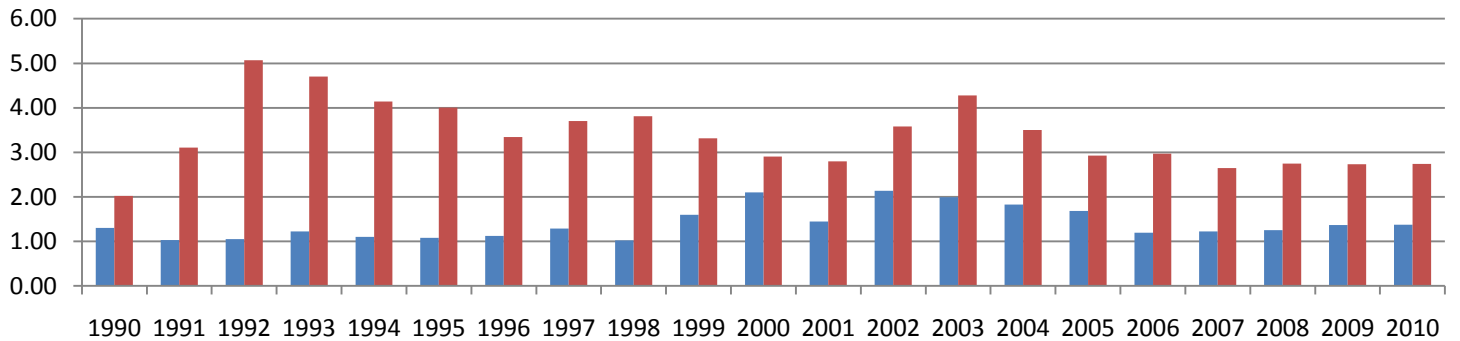


Source: Statistics Canada, Canadian International Merchandise Trade Database

— Actual Exports — Predicted Exports (using pre-FTA 1988-2001 data) — Linear (Actual Exports)

Costa Rican vegetable products represent 46.5% of the country's merchandise exports to Canada (Appendix B, Figure 36: Costa Rica Merchandise Exports to Canada 2010). Figure 12 shows that they increased at roughly the same rate as they did between 1988 and 2001. Meanwhile, Costa Rican machinery and electrical equipment exports, predominantly semiconductor components (Appendix C, Figure 41), account for 25.6% of exports (Appendix B, Figure 36). Machinery and electrical equipment exports, notably benefited from the FTA, roughly trebling predicted exports in 2010 (Appendix B, Figure 37: Costa Rica Machinery and Electrical Equipment Exports to Canada 2010). As previously mentioned, in 2006, Intel semiconductor parts represented 20% of Costa Rica's total exports so the large growth in machinery and electrical equipment exports reflects Intel's increasingly key role in the Costa Rican economy.

Figure 13: Canadian Trade with Costa Rica as a Percentage of Total Latin America Trade (excluding Mexico)

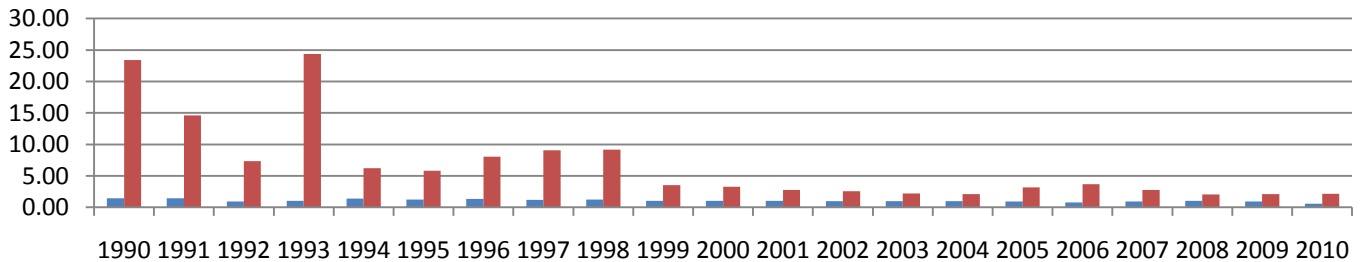


Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Canadian exports to Costa Rica as a percentage of total exports to Latin America (excluding Mexico)
 ■ Imports from Costa Rica as a percentage of total imports from Latin America (excluding Mexico)

In terms of Costa Rica’s importance as a destination for Canadian exports in comparison with other Central and South American countries, it has actually slightly dropped since the FTA came into effect in 2002. Looking at Costa Rica’s share of exports to Canada from Latin America and the Caribbean, except for the year 2003, Costa Rica’s share was lower each subsequent year than when the agreement was signed in 2002.

Figure 14: Costa Rica's Trade with Canada as a Percentage of Total Trade



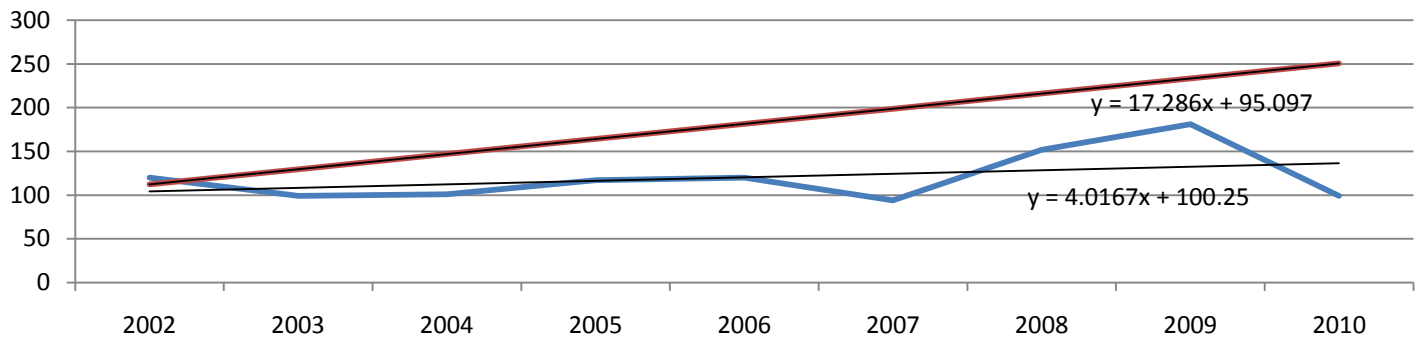
Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Imports from Canada as a percentage of total Costa Rican imports
 ■ Exports to Canada as a percentage of total Costa Rican exports

Imports from Canada as a percentage of total Costa Rican imports have remained relatively stagnant since the FTA came into force – it was 0.95% in 2002 and averaged 0.90% between 2003 and 2010. Costa Rican exports to Canada as a percentage of total exports have also been relatively stagnant since the ‘in force’ date; however, they have significantly declined since the early 1990s. In 1993, exports to Canada peaked at 24.35% of total exports.

Overall, the data suggests the FTA has slightly helped Canadian and Costa Rican exporters. The general decline in Canada’s pulp and paper exports and negligible growth in its vegetable product exports, its two biggest exports, were offset by growth in the remaining 50% of its exports. The fact that Canadian exports did not *significantly* benefit from the FTA (or increase their market share) is likely linked to the same arguments as to why they did not significantly benefit from the Chile-Canada FTA. Like Chile, Costa Rica has also begun an aggressive free trade campaign over the past decade, limiting the preferential access granted to Canadian exporters. While it was argued that Chile’s market size was too small to absorb many new Canadian products, the Costa Rican market is less than a fourth the size of the Chilean market. As for Costa Rican exporters, vegetable product exports grew at roughly the same rate, which means that most of the overall growth can be attributed to the growing importance of Intel’s operations within the country.

Figure 15: Canadian FDI Flows to Costa Rica 2002 - 2010 (in C\$ millions)



Source: CANSIM table v7117710

— FDI Outflows — Predicted FDI Outflows (using Pre-FTA 1996-2001 data)

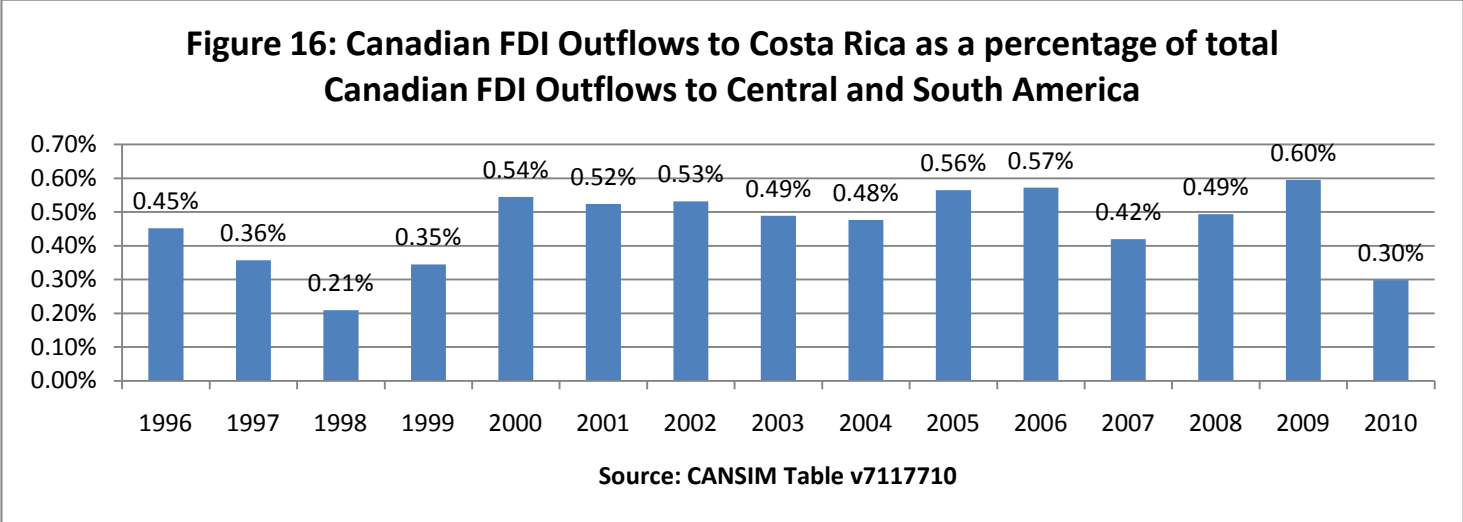
Canadian FDI flows have actually been significantly lower than if Canadian FDI flows increased at the same rate as pre-FTA 1996-2001 levels. In 2010, Canadian FDI reached C\$99 million compared with C\$251 million if FDI flows continued at the same pace as the pre-FTA trendline.¹⁰¹ It is important to note that the Canada-Costa Rica FTA did not include provisions covering investment.¹⁰² The Canada-Costa Rica Foreign Investment Promotion and Protection Agreement (FIPA) came into effect in September 1999. It already included provisions such as protection from expropriation, protection of monetary transfers relating to an investment and a dispute arbitration mechanism.¹⁰³ Therefore, when the FTA came into force, investors did not gain any new protections and the FTA would have acted purely as a symbolic catalyst for boosting FDI as it signalled closer Canada-Costa Rica economic relations.

¹⁰¹ Calculations using CANSIM Table v7117710. Accessed April 25, 2011.

¹⁰² Department of Foreign Affairs and International Trade. 'Highlights of the Canada-Costa Rica Free Trade Agreement'. http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/costarica/CR-high.aspx?lang=en&menu_id=18

¹⁰³ Department of Foreign Affairs and International Trade. 'Agreement between the Government of Canada and the Government of the Republic of Costa Rica for the Promotion and Protection of Investments.' http://www.international.gc.ca/trade-agreements-accords-commerciaux/assets/pdfs/costa_rica_CORRECTED.pdf

The vast majority of Canadian FDI has been directed to the tourism industry with much smaller percentages flowing to the financial and resource sectors.¹⁰⁴ Therefore, the fact that Canadian FDI flows grew quicker between 1996 and 2001 than between 2002 and 2010 likely reflects a bigger appetite for investments in the Costa Rican tourism industry in the late 1990s, near the beginning of Costa Rica’s tourism industry boom. The marginal growth also reflects Costa Rica’s lack of a major oil, gas and mining sector. It clearly contrasts with the weighty expansion of Canadian FDI flows to Chile, following the enforcement of the FTA, which were principally directed at the country’s mining sector.



Costa Rica’s importance as a destination for Canadian FDI in comparison with other Central and South American countries has also not significantly increased as a result of the FTA. Based on Figure 16, it has remained trivial in terms of Canadian FDI outflows. Again, this contrasts with the case of Chile whose share of Canadian FDI in the region grew substantially after the FTA was signed, largely due to mining investment. Meanwhile, in 2007, only one of the

¹⁰⁴ Lavoie-Evans, Emma. ‘Canada’s Free Trade Agreements with Latin America’ (Report). North-South Institute. May 2010, p. 8.

top 35 Canadian companies investing in Latin America had investments in Costa Rica (Scotiabank, a financial services firm).¹⁰⁵

It can be concluded that the Canada-Costa Rica FTA has been marginally beneficial for Canada. Canadian exports to Costa Rica increased at a modestly quicker level after the FTA was in force than during the two previous decades while its share of total Costa Rican imports has not increased. Costa Rican export growth to Canada was better than it was before the FTA was in force, one highlight being a trebling of the country's machinery and electrical equipment (i.e. semi-conductor part) exports; however, Canada's relative importance as an export destination has stagnated. Meanwhile, Canadian FDI flows increased at a slower rate than predicted using the pre-FTA trendline.

Canada's oldest bilateral FTAs with Latin American economies, the Canada-Costa Rica and Canada-Chile FTAs, have produced varied outcomes. Both agreements have led to relatively trivial growth of Canadian exports. Chilean exports soared after the FTA came into force while Costa Rica's exports grew at a more restrained pace. Semi-conductor parts were the main factor behind Costa Rican export growth while a number of sectors contributed to the increase of Chilean exports. Finally, Canadian FDI flows to Chile outpaced those to Costa Rica thanks to Chile's large mining sector.

¹⁰⁵ Economic Commission for Latin America and the Caribbean (ECLAC). 'Chapter 4: Canadian FDI in Latin America and the Caribbean' in *Foreign Investment in Latin America and the Caribbean*. 2007, p. 161.

NEW AGREEMENTS

The following section provides an analysis of Canada's newest FTAs with Latin American countries: the Canada-Colombia FTA, the Canada-Peru FTA, and the Canada-Panama FTA. Each country's recent economic and trade history is again discussed, followed by a brief summary of the main arguments for and against each agreement. Each country's importance as a destination for Canadian exports, Canada's role as an import source for each country, and each country's share of Canadian FDI flows to the region are assessed as well as the expected economic gains emanating from each agreement.

CANADA-COLOMBIA FREE TRADE AGREEMENT

Colombia is certainly among Canada's most politically volatile free trade partners.

Colombia has been subjected to a 46 year-long internal conflict between government forces and insurgent groups, principally the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN).¹⁰⁶ The conflict and drug-related

violence significantly escalated in the 1990s

and early 2000s. The tide began to turn in 2002 upon the election of President Alvaro Uribe.

Colombia Background Information

Area:	1,138,914 sq km
Population:	44,205,293
Government:	Republic
Capital City:	Bogota
Chief of State:	President Juan Manuel Santos
GDP (nominal):	US\$283.1 billion
GDP per capita:	US\$9,800 (PPP)
Import partners:	US (31%), China (10%), Mexico (8%), Brazil (6%)
Export partners:	US (42%), EU (13%), China (5%), Ecuador (5%)
Currency:	Colombian pesos
Unemployment Rate:	12%
Population below poverty line:	46.8%

Source: CIA World Factbook

¹⁰⁶ U.S. State Department. '2010 Human Rights Report: Colombia'. April 8, 2011. <http://www.state.gov/g/drl/rls/hrrpt/2010/wha/154499.htm>

Uribe's national security strategy critically weakened the FARC and other illegal armed groups and restored stability to large swathes of the country.¹⁰⁷ However, the Uribe administration was also implicated in a number of serious human rights abuses and political scandals.¹⁰⁸ Uribe's successor, President Juan Manuel Santos, was elected in 2010 and has made substantial efforts to try and improve the nation's human rights record such as a major initiative to return land and/or compensate displaced victims of the conflict (Colombia has roughly five million internally displaced people).¹⁰⁹

Between 2002 and 2007, Colombia's GDP growth averaged around 5%, largely as a result of the country's improving security situation and the surge in foreign direct investment.¹¹⁰ In recognition of Colombia's strong potential for future growth, Robert Ward of the Economist Intelligence Unit included Colombia in a newly coined BRIC-like bloc of emerging economies, CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa).¹¹¹ In recent years, Colombia has increasingly opened its economy to the world. It signed agreements with the United States (not in force) and Chile (in force) in 2006. The 'Colombia-Northern Triangle' agreement with El Salvador, Guatemala and Honduras was signed in 2007 (in force) while an agreement with the European Free Trade Association was signed in 2008 (not in force). Colombia has been a member of the Andean Community customs union (Colombia, Ecuador,

¹⁰⁷ U.S. State Department. 'Background Note: Colombia'. October 4, 2010.
<http://www.state.gov/r/pa/ei/bgn/35754.htm>

¹⁰⁸ Kopecky, Arno. 'The Only Risk is Wanting to Stay.' *The Walrus*. May 2011.
<http://www.walrusmagazine.com/articles/2011.05-international-affairs-the-only-risk-is-wanting-to-stay/>

¹⁰⁹ U.S. State Department. '2010 Human Rights Report: Colombia'. April 8, 2011.
<http://www.state.gov/g/drl/rls/hrrpt/2010/wha/154499.htm>

¹¹⁰ U.S. State Department. 'Background Note: Colombia'. October 4, 2010.
<http://www.state.gov/r/pa/ei/bgn/35754.htm>

¹¹¹ 'Acronyms: BRICS and BICIS'. *The Economist*. November 26, 2009.
http://www.economist.com/blogs/theworldin2010/2009/11/acronyms_4

Peru, Bolivia) since 1969 and a free trade agreement with Mexico has been in force since 1994 – Venezuela was previously a party to the two agreements but it pulled out of both in 2006.¹¹² In 2010, Colombia also signed an agreement with the European Union and the Canada-Colombia FTA, signed in 2008, is expected to finally come into force this August.¹¹³

The biggest concern of opponents of the Canada-Colombia FTA is that Canada will become complicit in human rights abuses, as the government's standing committee on international trade warned. Particularly, there is concern that major extractive resource firms conspire with paramilitary groups to drive peasants off their resource-rich land. Opponents expect the FTA, particularly the investment chapter with its various investor protections such as protection from expropriation (similar to the investment chapter of the NAFTA and Canada-Chile agreements), to further encourage Canadian investment in the mining sector. With the increased Canadian investment, they expect more of that money to either indirectly or directly flow to paramilitary groups.¹¹⁴ Colombia's regions with large mineral and oil deposits are estimated to be the site of 87 percent of the country's forced displacements.¹¹⁵ Colombia also currently has the world's highest trade unionist murder rate. There have been more than 2,800

¹¹² Organization of American States, Foreign Trade Information System. 'Information on Colombia: Trade Agreements'. http://www.sice.oas.org/ctyindex/CRI/CRIAgreements_e.asp

¹¹³ 'Colombia-E.U. Trade Makes New Advance'. *Forbes*. May 24, 2010. <http://www.forbes.com/2010/05/22/colombia-exports-trade-business-oxford-analytica.html>; Organization of American States, Foreign Trade Information System. 'Information on Colombia: Trade Agreements'. http://www.sice.oas.org/ctyindex/CRI/CRIAgreements_e.asp

¹¹⁴ Kopecky, Arno. 'The Only Risk is Wanting to Stay.' *The Walrus*. May 2011. <http://www.walrusmagazine.com/articles/2011.05-international-affairs-the-only-risk-is-wanting-to-stay/>

¹¹⁵ *ibid.*

reported killings since 1986 and 51 in 2010. The same right-wing paramilitary groups are believed to be responsible for the vast majority of the murders.¹¹⁶

Furthermore, opponents argue that the protections enshrined in the investment chapter give powerful new rights to investors which allow them to challenge host government policies that could benefit the country. The Canadian Council for International Cooperation and three other like-minded Canadian NGOs argue that even policies such as bans on online gambling or measures to limit the spread of private health insurers could be challenged.¹¹⁷ Additionally, they have declared that the FTA's labour side agreement, while marginally better than labour agreements with other Latin American free trade partners, does virtually nothing to address labour rights concerns in Colombia. They fear that the agreement focuses too much on development gains resulting from increased investment and ensuing growth and trickle-down effects rather than equitable distribution of wealth.¹¹⁸ The four NGOs also estimate that the FTA will cause thousands of job losses in Colombia's informal pork, wheat and barley sectors.¹¹⁹

Other groups, like the Canadian Council of Chief Executives (CCCE), believe that the FTA will improve living conditions in Colombia by lending credibility to the Colombian government and market, therefore promoting investment and growth.¹²⁰ The CCCE also notes

¹¹⁶ 'US/Colombia: Rights Conditions Crucial for Trade Deal'. *Human Rights Watch*. April 7, 2011. <http://www.hrw.org/en/news/2011/04/07/uscolombia-rights-conditions-crucial-trade-deal>

¹¹⁷ 'Making a Bad Situation Worse: An Analysis of the Text of the Canada-Colombia Free Trade Agreement' (Report). Canadian Council on International Co-operation, Canadian Association of Labour Lawyers, Canadian Labour Congress, and Canadian Centre for Policy Alternatives. 2009, p. 17.

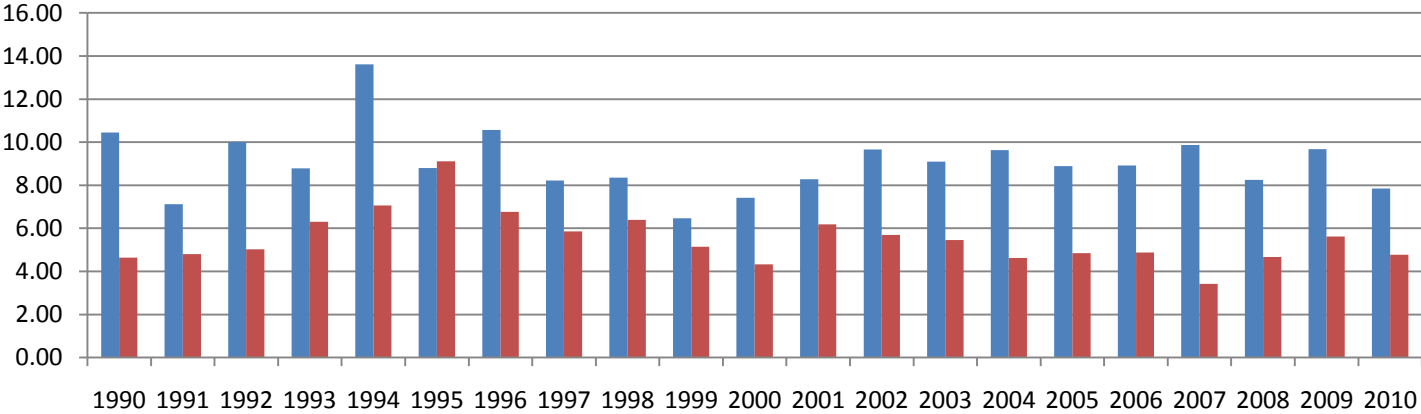
¹¹⁸ *ibid*, p. 15.

¹¹⁹ *ibid*, p. 24.

¹²⁰ Stewart-Patterson, David. 'The Global Economic Crisis and the Canada-Colombia Free Trade Agreement' (Speech). Canadian Council of Chief Executives. November 19, 2009. http://www.ceocouncil.ca/en/view/?document_id=1385

that the Department of Human Resources and Skills Development found that the provisions for labour rights in the agreement are the most comprehensive in the world and they exceed the provisions sought by the United States and European Union.¹²¹ Randall finds that neither side knows the actual empirical impact of the FTA on human rights and that their arguments are almost entirely ideological.¹²² The precise social impact on the lives of Colombians is beyond the scope of this paper, although it is agreed that the Canadian government should very carefully consider how to achieve the proper balance of economic and social outcomes in its FTAs.

Figure 17: Canada's Trade with Colombia as a Percentage of Total Latin American Trade (excluding Mexico)



Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Canadian Exports to Colombia as a percentage of total exports to Latin America (excluding Mexico)
 ■ Imports from Colombia as a percentage of total imports from Latin America (excluding Mexico)

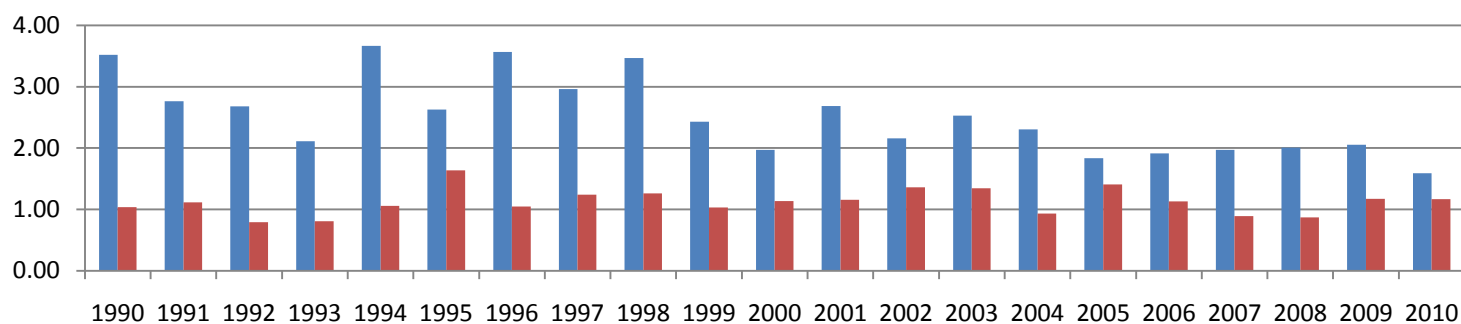
Colombia’s share of Canadian exports to Latin America and the Caribbean has fluctuated between 7% and 10% over the past two decades. In 2010, exports reached US\$566 million. Canadian imports from Colombia as a percentage of total imports from the region have also

¹²¹ *ibid.*

¹²² Randall, Stephen. ‘Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges’ (Report). Canadian International Council. August 2010, p. 11.

significantly fluctuated over the past decade – showing no particular upward or downward trends. In 2010, they were US\$748.2 million.¹²³

Figure 18: Colombia's Trade with Canada as a Percentage of Total Trade



Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Imports from Canada as a percentage of total Colombia imports
 ■ Exports to Canada as a percentage of total Colombian exports

Imports from Canada as a percentage of total Colombian imports have remained relatively stable over the past decade as well, roughly averaging 2%. Meanwhile, over the past decade, exports to Canada stabilized around 1% as a percentage of total exports. In 2010, wheat was Canada’s main export to Colombia (20% of all exports), followed by dry peas and beans (11.4%) and mining, oil and gas machinery (7%).¹²⁴ Over the past decade, Canada’s main exports have remained quite stable in terms of their overall value (See Appendix C, Figure 42: Top 5 Canadian Exports to Colombia). DFAIT expects that the FTA will mostly benefit Canada’s agricultural exports. Wheat currently faces a 15% tariff, peas and lentils (15%), beans

¹²³ Euromonitor International, using IMF Direction of Trade Statistics and trade sources/national statistics. Accessed April 25, 2011. <http://www.portal.euromonitor.com.proxy.library.carleton.ca/Portal/Statistics.aspx>

¹²⁴ Calculations based on Industry Canada Trade Data Online. Accessed April 25, 2011. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CAD&cacheTime=962115865#tag

(60%), pork (20%), and beef (5-80%).¹²⁵ American wheat growers are fearful of losing significant market share to Canadian wheat exporters. The American National Association of Wheat Growers estimates that American wheat growers could lose up to US\$100 million per year if the U.S.-Colombia FTA is not ratified quickly in face of the Canada-Colombia FTA along with other deals with Argentina and the E.U.¹²⁶ Meanwhile, Canada's extractive machinery exports face a 20% tariff but are often not charged the tariff "under Colombia's duty remission program for imported capital goods."¹²⁷ Another big export, newsprint, already enjoys duty-free status.¹²⁸

Colombia's main exports to Canada include non-citrus fruits (mainly bananas) accounting for 34% of all exports, coal at 24.5%, oil and gas at 15%, and cut flowers at 10%.¹²⁹ Non-citrus fruit exports have risen from roughly C\$100 million since 2001 to C\$250 million in 2010, coal has risen roughly C\$50 million to C\$180 million in the same period, and oil and gas rose from barely nothing in 2001 to C\$108 million in 2010 (Appendix C, Figure 43: Top 5 Colombian Exports to Canada). Bananas, oil, gas, coffee, and raw sugar from Colombia, when combined, account for around 70% of Canadian imports from Colombia. Prior to the FTA, those imports already entered Canada duty-free (they enter the country tariff-free under Canada's

¹²⁵ Department of Foreign Affairs and International Trade. 'Economic Analysis of Prospective Free Trade Agreement(s) Between Canada and the Countries of the Andean Community'. June 2007, p. 13, 22.

¹²⁶ National Association of Wheat Growers, U.S. Wheat Associates. 'Factsheet: US-Colombia Free Trade Agreement'. April 2011, p. 2.
[http://www.uswheat.org/mobile/tradeAgreements/doc/923F5FEBA40C4E88525787800533D90/\\$File/US-Colombia%20FTA%20Fact%20Sheet.pdf?OpenElement](http://www.uswheat.org/mobile/tradeAgreements/doc/923F5FEBA40C4E88525787800533D90/$File/US-Colombia%20FTA%20Fact%20Sheet.pdf?OpenElement)

¹²⁷ Department of Foreign Affairs and International Trade. 'Economic Analysis of Prospective Free Trade Agreement(s) Between Canada and the Countries of the Andean Community'. June 2007, p. 13, 22.

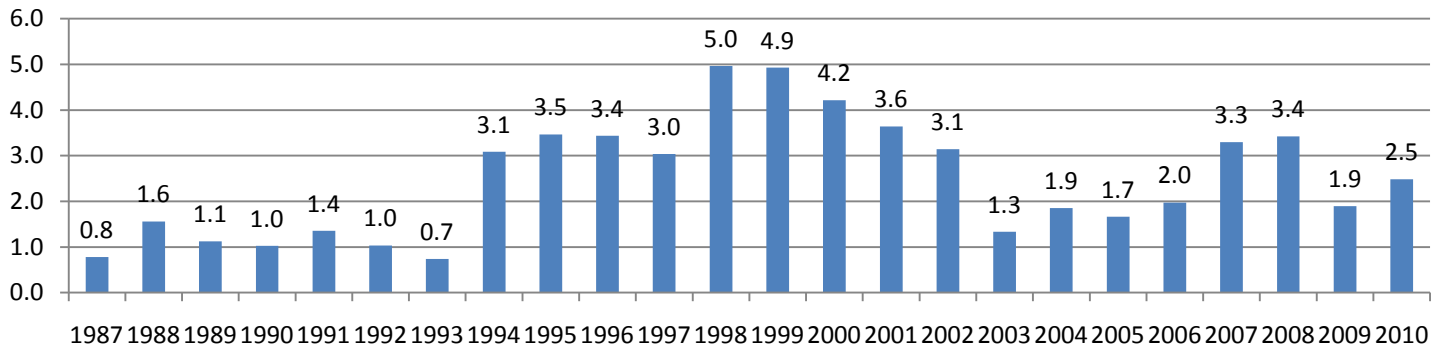
¹²⁸ *ibid.*

¹²⁹ Calculations based on Industry Canada Trade Data Online. Accessed April 25, 2011.
http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CAD&cacheTime=962115865#tag

Most-Favoured Nation tariff scheme). Canadian cut flower imports from Colombia are the most likely to benefit from the reduction of tariffs as they face tariffs currently ranging from 6-10.5%. Half of Canada's cut flower imports already come from Colombia and that share is expected to rise once tariffs are eliminated. The reduction of tariffs on Colombia cut flowers is seen as a potential threat to the Canadian floriculture sector. As a result of the country's climate and technical expertise, Colombian cut flower exporters enjoy a notable comparative advantage in relation to the Canadian floriculture sector. Meanwhile, the other major Canadian import from Colombia that does face a tariff is refined sugar. It currently faces a tariff of C\$30.86/tonne which would be withdrawn under the FTA.¹³⁰ Extractive resource sector exports should see an increase as well. As a result of the FTA, Canadian investment is supposed to increase primarily in the mining, oil and gas sector (discussed further below) which means that more of that sector's products would be shipped to Canada for refining as was the case with Chile. Rising commodity prices will likely amplify the value of those exports too. Therefore, other than extractive resource sector products, key exports such as bananas and coffee should not particularly benefit from the FTA as they already face no tariffs. Only select products which do currently face tariffs, such as cut flowers and refined sugar, are expected to really benefit from the FTA.

¹³⁰ Department of Foreign Affairs and International Trade. 'Economic Analysis of Prospective Free Trade Agreement(s) Between Canada and the Countries of the Andean Community'. June 2007, p. 14.

Figure 19: Canadian FDI Outflows to Colombia as a percentage of Total Canadian FDI Outflows to Central and South America



Source: CANSIM Table v7117709

Figure 19 shows that Canadian FDI to Colombia as a percentage of its total FDI to Central and South America has actually decreased from its high of 5.0% in 1998 to about 2.5% in 2010 (which to some extent is related to the increasing proportion of flows directed towards Chile). DFAIT notes that recently the most appealing sector for Canadian investors in Colombia is the country's oil, gas and mining sector.¹³¹ As of 2007, of the top 35 Canadian companies currently investing in Latin America, all but one of the companies investing in Colombia were oil and gas companies: Nexen Inc., TransCanada Corp, Petrobank Energy and Resources, and Pacific Stratus Energy (Quebecor World being the one exception is in the manufacturing sector).¹³²

DFAIT expects investment to increase, particularly in the oil, gas and mining sector, once the investment chapter of the FTA comes into effect. The investment chapter of the Canada-Colombia FTA is largely based on the NAFTA and Canada-Chile FTA investment chapters. It includes provisions such as protection from expropriation without fair compensation, improved

¹³¹ *ibid*, p. 18.

¹³² Economic Commission for Latin America and the Caribbean (ECLAC). 'Chapter 4: Canadian FDI in Latin America and the Caribbean' in *Foreign Investment in Latin America and the Caribbean*. 2007, p. 161.

investor-state dispute resolution mechanisms and freedom to transfer capital related to an investment.¹³³ The Canadian Council on International Co-operation states that the investment chapter adds even more favourable terms for investors than previous agreements and considers the investment chapter to be the most effective yet incorporated in a Canadian trade agreement.¹³⁴ For example, the Canada-Colombia investment chapter includes Market Access provisions for the first time which restricts the host government's ability to limit the number of foreign investors in a domestic market (although certain Colombian sectors have been exempted such as energy distribution and education).¹³⁵ Additionally, investment should increase as long as the country's security situation continues to improve. As previously mentioned, since 2002, President Uribe and now President Santos have launched a national security program which has brought large portions of the country back under government control. With law and order back in place, foreign investment is steadily pouring into the country. The case of Chile may be seen as somewhat of a precedent for the current situation in Colombia. Chile's share of Canadian FDI in the region rapidly grew following the country's return to democracy eliminating the political risk which had kept Canadian investors at bay.

With roughly 7-10% of Canadian exports in the region going to Colombia and 4-6% of imports coming from Colombia over the past decade, the country remains a trade partner of moderate importance. Considering that 70% of Colombia's exports to Canada already entered duty-free, a massive surge in exports is not necessarily an expected result of the FTA. However,

¹³³ Department of Foreign Affairs and International Trade. 'Economic Analysis of Prospective Free Trade Agreement(s) Between Canada and the Countries of the Andean Community'. June 2007, p. 18.

¹³⁴ 'Making a Bad Situation Worse: An Analysis of the Text of the Canada-Colombia Free Trade Agreement' (Report). Canadian Council on International Co-operation, Canadian Association of Labour Lawyers, Canadian Labour Congress, and Canadian Centre for Policy Alternatives. 2009, p. 31.

¹³⁵ *ibid*, p. 21.

specific exports such as cut flowers and refined sugar should see tangible benefits with the elimination of relatively heavy tariffs. Similar to Chile, extractive resource exports should also rise as a result of rising commodity prices and increased Canadian mining activity. Canadian agricultural exports should see an enhanced market position in Colombia, particularly if the FTA comes into effect as expected this August before the U.S.-Colombia FTA. Finally, given Colombia's improving security situation and the growing appetite for the country's extractive resources, investment should at least grow at a moderate pace, akin to the growth in FDI following Chile's return to democracy.

CANADA-PERU FREE TRADE AGREEMENT

Prior to the financial crisis, the Peruvian economy grew around 6% per year between 2002 and 2006, 9% in 2007, 10% in 2008, before dropping to 1% in 2009 and then returning to 8% in 2010. The country's strong growth reduced the national poverty rate by 19% since 2002; however, income inequality remains high.¹³⁶ Under the guidance of conservative President Alan Garcia, elected in 2006, Peru began a swift campaign of free trade promotion. Peru signed agreements with Chile and the United States in 2006, Singapore in 2008, and China in 2009. Since 2006, Peru has also signed agreements (not yet in force) with Thailand, the EFTA and Mexico. Canada's agreement was signed in May 2008 and came into force in August

Peru Background Information

Area:	1,285,216 sq km
Population:	29,907,000
Government:	Republic
Capital City:	Lima
Chief of State:	President Ollanta Humala
GDP (nominal):	US\$153.5 billion
GDP per capita:	US\$9,200 (PPP)
Import partners:	US (24%), China (11%), Ecuador (7%), Brazil (7%)
Export partners:	US (17%), China (15%), Switzerland (15%)
Currency:	Peruvian nuevo sol
Unemployment Rate:	8.1%
Population below poverty line:	44.5%

Source: CIA World Factbook

2009.¹³⁷ The future of the economic and trade policies of the Garcia administration is up in the air with the failure of his party to get re-elected in the 2011 elections. President Ollanta Humala, elected in June 2011, has vowed to review Peru's existing FTAs and possibly renegotiate them.¹³⁸

¹³⁶ CIA World Factbook. 'Peru'. <https://www.cia.gov/library/publications/the-world-factbook/geos/pe.html>

¹³⁷ Organization of American States, Foreign Trade Information System. 'Information on Peru: Trade Agreements'. http://www.sice.oas.org/ctyindex/PER/PERAgreements_e.asp

¹³⁸ Stauffer, Caroline. 'Peru's Humala: from uprising to power'. Reuters. June 6, 2011. <http://www.reuters.com/article/2011/06/06/peru-election-penpix-idUSN0626238720110606>

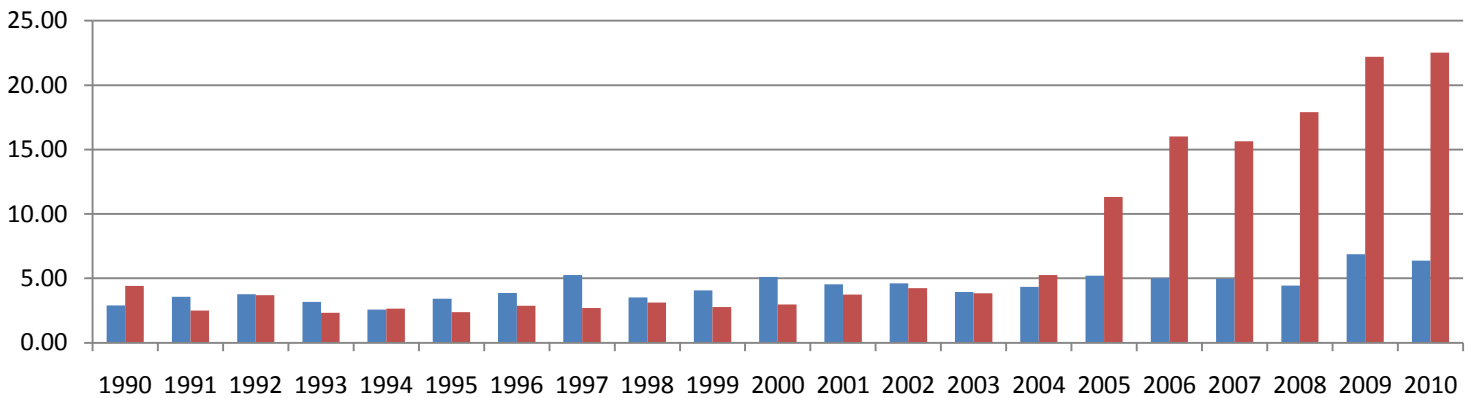
While the Canada-Colombia deal has received the most attention regarding human rights concerns, the Canada-Peru FTA is also opposed by think tanks such as the Canadian Council for International Cooperation and the Polaris Institute. They are worried that the Canada-Peru FTA will increase Canadian mining activity in the country which they believe is often associated with the displacement and exploitation of indigenous groups as well as environmental destruction. They feel that Canadian mining companies have a track record of exploiting the land without benefiting local populations.¹³⁹ Randall is of the opinion that more measures need to be taken to ensure those concerns are addressed. The government should promote corporate social responsibility (CSR) for extractive resource companies and go beyond voluntary application of CSR principles by establishing compliance mechanisms. Although he states that ensuring good governance by companies is ultimately up to the host countries, he also declares that Peru remains one of the most important economies for Canada to pursue trade relations with in the region.¹⁴⁰ Lavoie-Evans notes that the agreement is not expected to produce a surge in Canadian exports to Peru. Rather, it is intended to give Canada a level playing field with competitors, particularly the United States, which already have free trade agreements with Peru.¹⁴¹

¹³⁹ Collins, Michelle. 'Peruvian Violence Prompts Concerns Over Canada's Push Free Trade Deals'. *Embassy*. June 2009. http://www.embassymag.ca/page/view/peruvian_violence-6-24-2009

¹⁴⁰ Randall, Stephen. 'Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges' (Report). Canadian International Council. August 2010, p. 3.

¹⁴¹ Lavoie-Evans, Emma. 'Canada's Free Trade Agreements with Latin America' (Report). North-South Institute. May 2010, p. 9-10.

Figure 20: Canadian Trade with Peru as a Percentage of Total Latin America Trade (excluding Mexico)



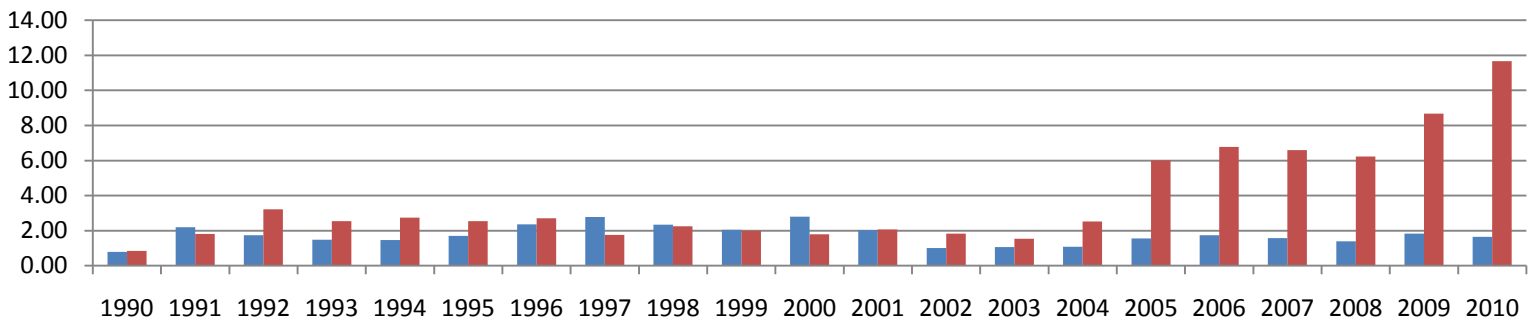
Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

- Canadian exports to Peru as a percentage of total exports to Latin America (excluding Mexico)
- Imports from Peru as a percentage of total imports from Latin America (excluding Mexico)

In 2010, Canadian exports to Peru reached US\$460 million. Canadian exports to Peru as a percentage of total Canadian exports to the region reached an all-time high of 6.9% in 2009 when the FTA came into force, up from 4.4% the year before. Moreover, Peru has seen a very substantial rise in its share of Canada’s imports from Latin America and the Caribbean since the year 2003. Its share jumped from 3.83% in 2003 to 22.5% in 2010. In 2010, imports from Peru reached a high of US\$3.5 billion.¹⁴²

¹⁴² Euromonitor International, using IMF Direction of Trade Statistics and trade sources/national statistics. Accessed April 25, 2011. <http://www.portal.euromonitor.com.proxy.library.carleton.ca/Portal/Statistics.aspx>

Figure 21: Peru's Trade with Canada as a Percentage of Total Trade



Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Imports from Canada as percentage of total Peruvian imports ■ Exports to Canada as a percentage of total Peruvian exports

Imports from Canada as a percentage of total Peruvian imports have not actually surpassed 2% since 2001. However, Canada’s importance as a Peruvian export destination has soared since 2003 when exports to Canada accounted for 1.54% of all Peruvian exports compared to 11.67% in 2010. The FTA appears to have had an effect as well, considering that exports to Canada accounted for 6.23% in 2008, the year before the deal, and reached 11.67% in 2010.

The huge leap in Peru’s share of Canada’s imports from Latin America and in the importance of Canada as a Peruvian export destination also reflects the huge increase in Peruvian gold and silver exports to Canada (gold and silver statistics are lumped together under Industry Canada Trade Data Online data, but it is important to note that gold constitutes a much larger share of exports than silver). In 2003, they totalled only C\$598,000 compared with C\$2.7 billion in 2010 (Appendix C, Figure 45: Top 5 Peru Exports to Canada). Gold and silver are by far Peru’s most important exports to Canada, representing 74.5% of all exports in 2010.¹⁴³ If

¹⁴³ Calculations based on Industry Canada Trade Data Online. Accessed April 25, 2011. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CAD&cacheTime=962115865#tag

Peruvian exports continue to grow in the coming years, it could potentially have more to do with an increase in the volume and value of silver and gold exports than particular provisions in the FTA. *The Economist* notes that the price of gold has risen swiftly since 2002 – the average annual price growing by double digits in percentage terms each year. It recently passed \$1500 per ounce.¹⁴⁴ Gold exports to Canada have also been rising because Canadian gold companies have been increasing production in Peru and shipping the gold to Canada for processing. The FTA is supposed to further boost investment and activity thus leading to even more gold shipments. The two biggest Canadian gold firms in Peru are Barrick Gold and Skye Resources.¹⁴⁵ A potential bursting of what some economists consider an ongoing gold bubble would seriously erode the value of Peruvian exports. An even bigger threat to continued growth in gold exports is a promise made by recently elected President Humala to increase corporate tax rates for mining firms as well as to enforce stricter regulation of the sector.¹⁴⁶ Prior to the agreement, DFAIT noted that the gains for Peruvian exporters were likely to be relatively marginal considering the fact that 97% of Peruvian exports to Canada were already duty-free (key Peruvian goods such as gold, oil, coffee, and most tropical fruits enter the country tariff-free under Canada's Most-Favoured Nation tariff scheme). The only major dutiable import from Peru was knit apparel which faced an 18% tariff prior to the FTA.¹⁴⁷

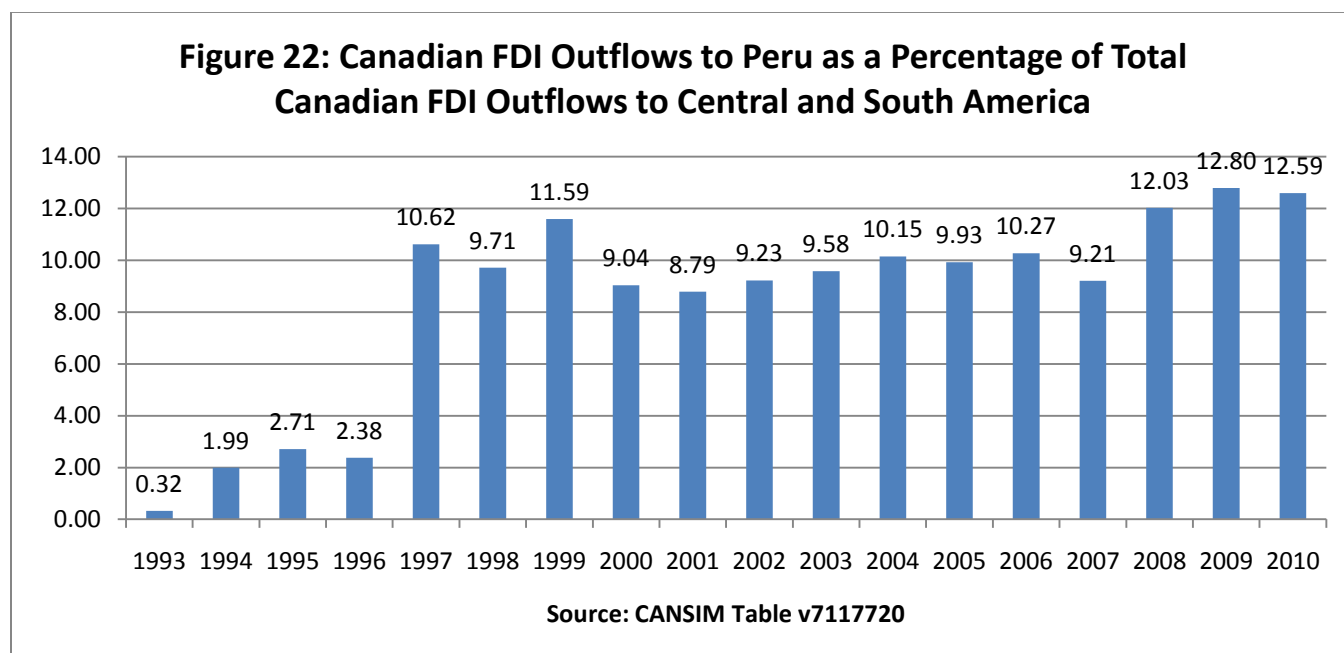
¹⁴⁴ 'Buttonwood: Gilt-edged argument'. *The Economist*. April 30, 2011, p. 80.

¹⁴⁵ Randall, Stephen. 'Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges' (Report). Canadian International Council. August 2010, p. 9.

¹⁴⁶ Stauffer, Caroline. 'Peru's Humala: from uprising to power'. Reuters. June 6, 2011.
<http://www.reuters.com/article/2011/06/06/peru-election-penpix-idUSN0626238720110606>

¹⁴⁷ Department of Foreign Affairs and International Trade. 'Economic Analysis of Prospective Free Trade Agreement(s) Between Canada and the Countries of the Andean Community'. June 2007, p. 15, 26.

The increase in Peru’s importance as an export destination for Canada between 2008 and 2009 can be partially attributed to a surge in Canada’s main export to the country: wheat (41% of all exports).¹⁴⁸ Prior to the enforcement of the FTA, DFAIT correctly argued that wheat exports would have the most to gain as it used to face a 17% tariff.¹⁴⁹ Wheat exports increased from C\$127 million to C\$198 million between 2008 and 2009 (see Appendix C, Figure 44: Top 5 Canadian Exports to Peru). DFAIT also predicted growth in pulses (dry peas, bean and lentils), oil and gas machinery, paper, plastics, and rubber exports. Prior to the agreement, machinery and equipment exports faced a 4-12% tariff, pulses (25%) and paper (12%).¹⁵⁰ However, oil and gas machinery exports (7% of total exports), paper (5.5%), and dry peas and beans (5%) have not seen large increases so far (Appendix C, Figure 44).



¹⁴⁸ Calculations based on Industry Canada Trade Data Online. Accessed April 25, 2011. http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CAD&cacheTime=962115865#tag

¹⁴⁹ Department of Foreign Affairs and International Trade. ‘Economic Analysis of Prospective Free Trade Agreement(s) Between Canada and the Countries of the Andean Community’. June 2007, p. 14, 25.

¹⁵⁰ *ibid.*

Since 1997, Peru has become one of the most important destinations for Canadian FDI in Latin America. When the FTA came into force in 2009, it claimed its largest share of Canadian FDI to the region ever with 12.8%. Lavoie-Evans notes that the biggest expected gain from the FTA is a further increase in Canadian FDI, stemming from provisions increasing investor protections and reducing barriers to investment in the investment chapter.¹⁵¹ DFAIT notes that investment had already been increasing as a result of the Canada-Peru Foreign Investment Program Agreement (FIPA) which came into force in 2007 and, the investment chapter of the FTA is of even higher standards. The Canada-Peru investment chapter is quite similar to the Canada-Colombia chapter, adding some new innovations to the NAFTA model, like Market Access provisions which prevent governments from limiting the number of foreign investors in domestic markets.¹⁵² Canada is already one of the biggest investors in the country's mining sector.¹⁵³ Along with the previously noted Skye Resources and Barrick Gold, other major firms investing in Peru include two other mining firms Iberian Minerals Corp and Teck Cominco as well as Scotiabank.¹⁵⁴ Again, the biggest threat to increasing mining investment is the promise made by new President Humala to further regulate and tax the mining industry.¹⁵⁵

¹⁵¹ Lavoie-Evans, Emma. 'Canada's Free Trade Agreements with Latin America' (Report). North-South Institute. May 2010, p. 9-10.

¹⁵² 'Making a Bad Situation Worse: An Analysis of the Text of the Canada-Colombia Free Trade Agreement' (Report). Canadian Council on International Co-operation, Canadian Association of Labour Lawyers, Canadian Labour Congress, and Canadian Centre for Policy Alternatives. 2009, p. 21.

¹⁵³ Department of Foreign Affairs and International Trade. 'Canada-Peru Free Trade Agreement'. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/andean-andin/can-peru-perou.aspx>

¹⁵⁴ Economic Commission for Latin America and the Caribbean (ECLAC). 'Chapter 4: Canadian FDI in Latin America and the Caribbean' in *Foreign Investment in Latin America and the Caribbean*. 2007, p. 161.

¹⁵⁵ Stauffer, Caroline. 'Peru's Humala: from uprising to power'. Reuters. June 6, 2011. <http://www.reuters.com/article/2011/06/06/peru-election-penpix-idUSN0626238720110606>

Over the past half decade, Canada has clearly become an increasingly key export destination for Peru and the FTA appears to have provided an additional boost. However, that trend is almost exclusively reliant on the surge in gold exports. Since the 'in force' date, Peru has also become an increasingly noteworthy destination for Canadian exports within the region - primarily as a result of the surge in wheat exports. Additionally, Peru's share of Canadian FDI flows to the region has grown notably since 2007 and will likely continue to do so, considering the country's surging economy and resource sector. Only if President Humala manages to truly scare away Canadian mining firms or if there was a large drop in specific commodity prices (i.e. gold) would investment begin to halt.

Over the past decade, Panama has had one of Latin America's fastest growing economies and it is expected to continue growing at a rapid pace over the next few years with the ongoing expansion of the Panama Canal which began in 2007. Panama has one of Latin America's most robust services sector which accounts for roughly 75% of GDP. Finance and insurance, tourism, Panama Canal services and container ports, and services provided

Panama Background Information

Area:	75, 420 sq km
Population:	3,410,676
Government:	Constitutional Democracy
Capital City:	Panama City
Chief of State:	President Ricardo Martinelli
GDP (nominal):	US\$27.2 billion
GDP per capita:	US\$12,700 (PPP)
Import partners:	Japan (36%), Singapore (17%), US (12%), China (8%)
Export partners:	Greece (21%), US (18%), Japan (10%), Germany (4%)
Currency:	Panamanian balboa, U.S. dollar
Unemployment Rate:	6.7%
Population below poverty line:	28.6%
Source: CIA World Factbook	

in the Colon Free Zone constitute the majority of activities within the country's service sector.¹⁵⁶

Like its neighbour Costa Rica, Panama ranks highly among Latin American countries in terms of living standards and measures of democracy.¹⁵⁷ Panama's economy is dollar-based with the U.S. dollar and Panamanian balboa both in circulation (the balboa is tied to the dollar at a 1:1 rate). It has also been singled out as a tax haven by the Organization for Economic Cooperation and Development and it has Latin America's second worst level of income distribution.¹⁵⁸

Additionally, Panama is another firm believer in the benefits of free trade. Panama's first FTA was signed in 2002 with Central America's five other Spanish-speaking countries, followed by an agreement with Taiwan in 2003, Singapore in 2006, and Chile in 2006. Panama's agreement

¹⁵⁶ CIA World Factbook. 'Panama'. <https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html>

¹⁵⁷ United Nations Development Programme. 'Human Development Report 2010'. http://hdr.undp.org/en/media/HDR_2010_EN_Complete_reprint.pdf; Economist Intelligence Unit. 'Index of Democracy 2008'. <http://graphics.eiu.com/PDF/Democracy%20Index%202008.pdf>

¹⁵⁸ CIA World Factbook. 'Panama'. <https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html>

with the United States, which was signed in 2007, is still awaiting ratification by Congress while its most recent agreement with Canada was signed on May 14, 2010 and is also awaiting ratification by both governments.¹⁵⁹

Considering the country's openness to trade, proponents of the Canada-Panama FTA view the country as a logical partner in Canada's Americas trade strategy. Lavoie-Evans notes that despite its small size, Panama has 'strategic characteristics' – the most obvious being the location of the Panama Canal (Canada is the 10th most important user).¹⁶⁰ DFAIT's official economic analysis of the deal lists a number of benefits including supporting Canada's broader regional objectives of economic integration and democracy promotion, maintaining the competitiveness of Canada's exporters and investors in Panama, and improved market access.¹⁶¹ Some critics of Canada's Americas strategy such as Randall argue it is a waste of time and resources to focus on signing FTAs with tiny markets such as Panama as the cost of resources spent negotiations often exceeds the benefits resulting from the deal (or the benefits barely outweigh the costs). Resources would be better spent on deals with large economies where benefits are more likely to significantly outweigh costs.¹⁶² Meanwhile, other detractors of the deal are primarily troubled by environmental and labour rights concerns, as in Peru and Colombia. On top of those concerns, organizations such as the Council of Canadians (a notable opponent of the Canada-U.S. FTA) are worried about Panama's tax haven status. They allege

¹⁵⁹ Organization of American States, Foreign Trade Information System. 'Information on Panama: Trade Agreements'. http://www.sice.oas.org/ctyindex/CRI/CRIAgreements_e.asp

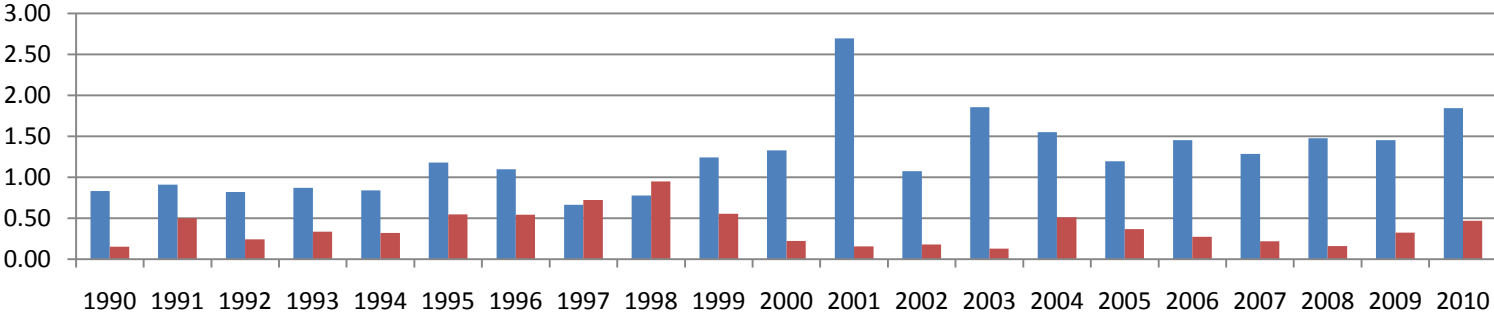
¹⁶⁰ Lavoie-Evans, Emma. 'Canada's Free Trade Agreements with Latin America' (Report). North-South Institute. May 2010, p. 13.

¹⁶¹ Department of Foreign Affairs and International Trade. 'Economic Analysis : Prospective Free Trade Agreement between Canada and Panama'. December 2008, p. 4.

¹⁶² Randall, Stephen. 'Canada, the Caribbean and Latin America: Trade, Investment and Political Challenges' (Report). Canadian International Council. August 2010, p. 9.

that if Panama remains a tax haven after the signing of the FTA, it could hurt Canada’s own financial regulation. Foreign firms, banks and investors which benefit from Panama’s system would be able to challenge Canada’s existing anti-tax haven measures as they would violate Article 9.10 of the agreement which guarantees investment transfers.¹⁶³ However, speaking to *Embassy* magazine, University of Ottawa professor Patrick Leblond notes that there is no connection between the free trade agreement and Panama’s status as an offshore financial centre. The issue is whether Canada should use the deal as an incentive for Panama to reform its tax system.¹⁶⁴

Figure 23: Canadian Trade with Panama as a Percentage of Total Latin American Trade (excluding Mexico)



Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Canadian exports to Panama as a percentage of total exports to Latin America (excluding Mexico)
 ■ Imports from Panama as a percentage of total imports from Latin America (excluding Mexico)

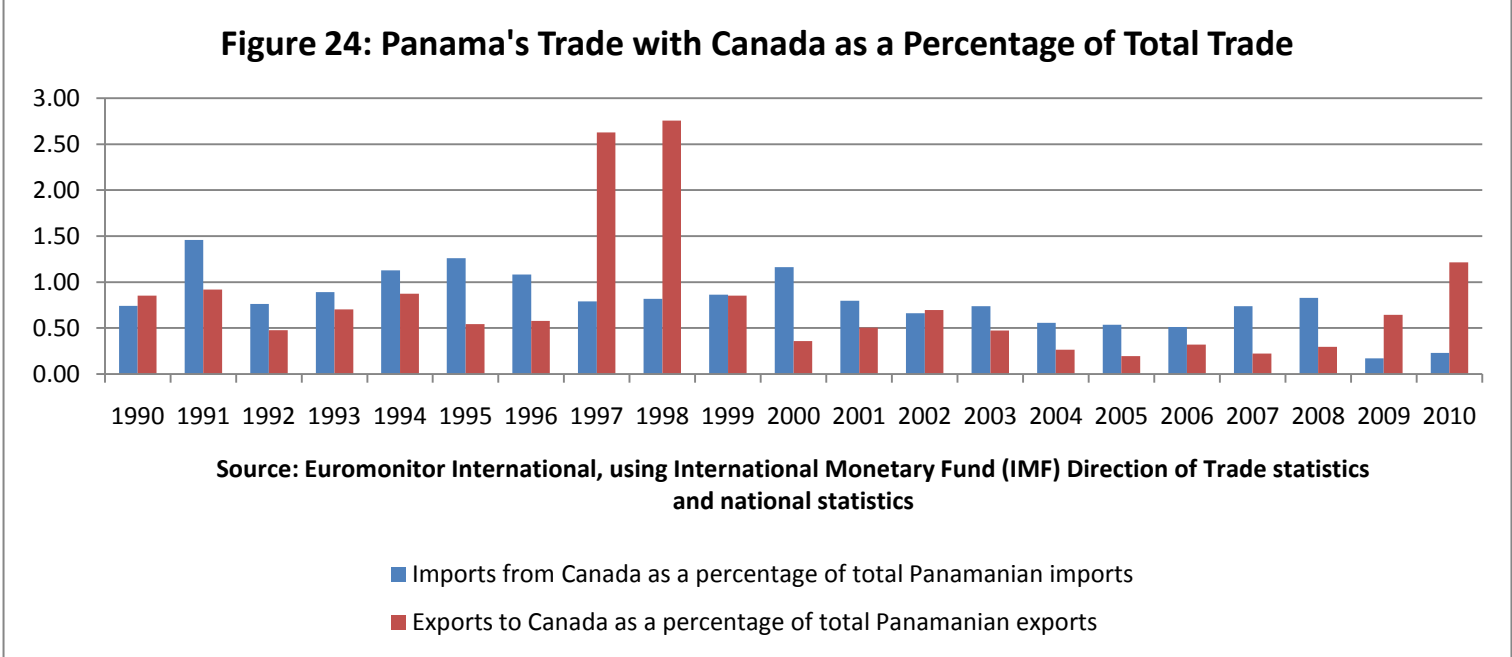
In 2010, Canadian exports to Panama reached US\$133 million. Panama has never been an important export destination for Canada over the past twenty years – it only once surpassed 2% of the share of Canada’s exports to Latin America and the Caribbean in 2001. Considering it

¹⁶³ Trew, Stuart. ‘Fix Panama’s tax regime before signing FTA, trade committee hears’. Council of Canadians. November 24, 2010. <http://www.canadians.org/tradeblog/?p=1204>

¹⁶⁴ Meyer, Carl. ‘Panama a ‘tax haven’: Opposition’. *Embassy*. October 6, 2010. <http://www.embassymag.ca/page/view/panama-10-06-2010>

represents less than 2% of the regional share for a region that has never surpassed 2% of total Canadian exports (see Appendix A, Figure 26), it is unlikely it will become a key market for Canadian exporters in the future. In 2010, imports from Panama were US\$73.2 million.

Canadian imports from Panama as a percentage of total imports from the region have remained negligible over the past decade as well.¹⁶⁵



Imports from Canada as a percentage of total Panamanian imports reached new lows in 2009 (0.17%) and 2010 (0.23%). Meanwhile, exports to Canada as a percentage of total Panamanian exports have gradually increased in importance over the past few years, reaching over 1% in 2010 for the first time since 1998. Similar to Peru, that increase is likely attributable to Panama’s main export to Canada - silver and gold ore, representing 84% of all exports in 2010

¹⁶⁵ Euromonitor International, using IMF Direction of Trade Statistics and trade sources/national statistics. Accessed April 25, 2011. <http://www.portal.euromonitor.com.proxy.library.carleton.ca/Portal/Statistics.aspx>

(gold constitutes by far the main metal included in the silver and gold export category).¹⁶⁶

Between 2008 and 2010, silver and gold exports jumped from C\$1 million to C\$74 million (Appendix C, Figure 47: Top 5 Panama Exports to Canada). Again, if the FTA comes into force and there is considerable Panamanian export growth, the question will need to be asked whether it is driven by FTA provisions or simply Canadian demand for gold ore. As with the other Latin American economies with gold reserves, part of the increase in exports to Canada is attributed to more Canadian mining firm operations and shipments of gold to Canada for refining. Like Peru, DFAIT notes that 97% of Canada's imports from Panama already enter duty-free under Canada's Most-Favoured Nation (MFN) tariff scheme (most key exports like gold and other metals are not dutiable). Panamanian dutiable exports which face Canada's average applied MFN tariffs include fish (1.3%), electrical machinery (2.9%), brooms and brushes (7.9%), women's undergarments (18%), furniture (5.3%), ceramics (7.5%) and plastics (3.6%).¹⁶⁷ Considering that the vast majority of Canadian imports from Panama already enter duty-free, it is unlikely they would increase significantly as a result of the deal.

Canada's main export to Panama is aerospace parts and products (34.5% of all exports in 2010), followed by dry peas and beans (7%), and pharmaceutical products and medicine (5%).¹⁶⁸

Panama has small domestic agricultural and manufacturing sectors, which means there is a general lack of domestic competition. Once the FTA comes into effect, those two sectors are

¹⁶⁶ Calculations based on Industry Canada Trade Data Online. Accessed April 25, 2011.
http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CAD&cacheTime=962115865#tag

¹⁶⁷ Department of Foreign Affairs and International Trade. 'Economic Analysis: Prospective Free Trade Agreement between Canada and Panama'. December 2008, p. 9, 17.

¹⁶⁸ Calculations based on Industry Canada Trade Data Online. Accessed April 25, 2011.
http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php?lang=30&headFootDir=/sc_mrkti/tdst/headfoot&productType=NAICS&toFromCountry=CAD&cacheTime=962115865#tag

considered to be the key areas for Canadian export growth.¹⁶⁹ The United States views the frozen French fry and pork sectors as the most likely areas for Canadian producers to gain ground vis-à-vis American producers should the Canada-Panama FTA come into effect prior to the U.S.-Panama FTA.¹⁷⁰ Panama has a MFN average applied agricultural tariff of 13.6% and a 6.4% tariff for non-agricultural goods. Some of Canada's key exports to Panama are dutiable including aircraft (14% average applied tariff), pulses (5.2%), paper (6.8%), pork (47%), beef (18%), frozen French fries (20%), fish and seafood (12.5%), and motor vehicles (15%). Some key Canadian exports currently face quotas as well including pork, potatoes and beans. Considering that most of Canada's main exports to Panama currently face at least moderate tariffs, the FTA should ensure much better market access for Canadian exporters as it aims to eliminate virtually all tariffs.¹⁷¹

¹⁶⁹ Blaser, Fred. 'Rethinking trade with Panama'. Globe and Mail. March 11, 2011.

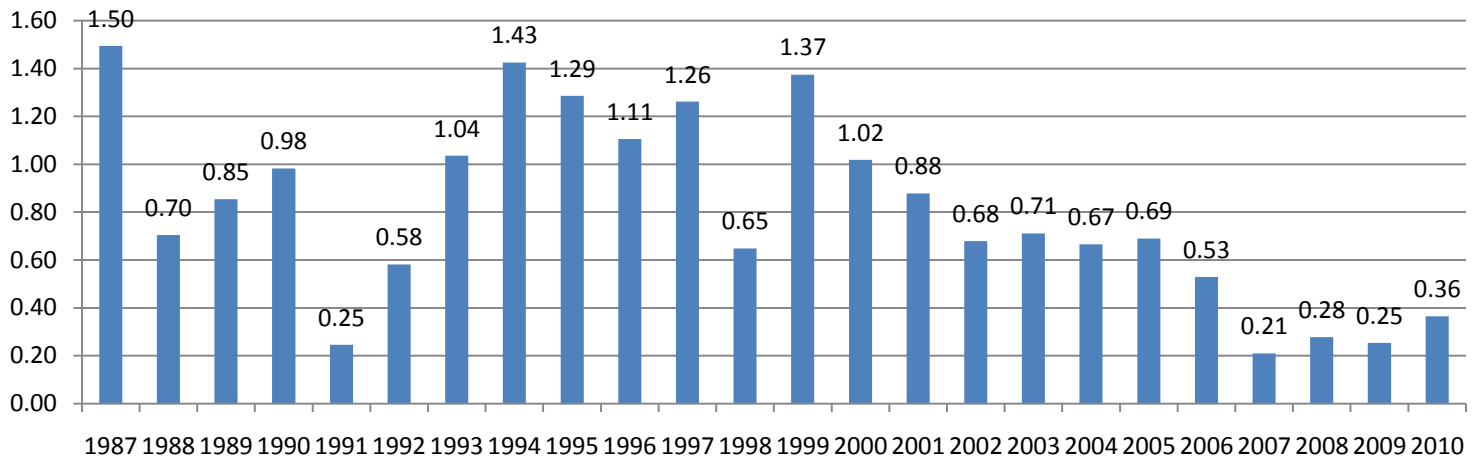
<http://www.theglobeandmail.com/news/opinions/opinion/rethinking-trade-with-panama/article1937629/>

¹⁷⁰ Office of the Press Secretary. 'Fact Sheet: Benefits of U.S.-Panama Trade Promotion Agreement'. April 21, 2011.

<http://iipdigital.usembassy.gov/st/english/texttrans/2011/04/20110420142610su0.7689587.html#axzz1P5Nb71Lx>

¹⁷¹ Department of Foreign Affairs and International Trade. 'Economic Analysis: Prospective Free Trade Agreement between Canada and Panama'. December 2008, p. 9-10, 17.

Figure 25: Canadian FDI Outflows to Panama as a Percentage of Total Canadian FDI Outflows to Central and South America



Source: CANSIM Table v7117718

The Canada-Panama Foreign Investment Protection Agreement which came into force in 1998 may have been partly responsible for helping to boost Panama's share from 0.65% in 1998 to 1.37% in 1999.¹⁷² Although, it does not appear to have acted as a long-term enhancement as Canadian FDI flows to Panama as a share of total FDI flows to Central and South America have been steadily declining since 1999 when it reached 1.37%. Once the FTA comes into effect, Canadian firms are expected to invest increasingly in construction and infrastructure projects related to the Panama Canal expansion. As was the case with Chile, the investment promotion provisions in the FTA (which will add extra provisions not included in the Foreign Investment Protection Agreement) are expected to further stimulate Canadian mining investment.¹⁷³ Panama's growing gold exports to Canada reflect the already substantial interest of Canadian

¹⁷² Department of Foreign Affairs and International Trade. 'List of Canada's existing FIPAs'. http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/fipa-apie/fipa_list.aspx?lang=en&menu_id=14

¹⁷³ Department of Foreign Affairs and International Trade. 'Economic Analysis: Prospective Free Trade Agreement between Canada and Panama'. December 2008, p. 12.

mining firms in the country (Teck Cominco being the largest Canadian mining firm investing in the country). Additionally, the Panamanian financial sector is already a main destination for Canadian FDI (the main investor being Scotiabank).¹⁷⁴ Despite the expected boost from the FTA, it is doubtful Panama will ever capture a particularly large percentage of Canadian FDI in the region, given the country's small market size.

Panama will remain a peripheral market for Canadian exporters, although they should enjoy considerably better market access once the FTA is in force. Panamanian exporters will likely see relatively few tangible benefits considering that 97% of their exports to Canada are already duty-free. Like Peru, gold exports will probably be the main factor behind Canada's apparent growing importance as an export destination for Panama. Meanwhile, Canadian mining firms seeking precious metals and the expansion of the Panama Canal are likely to be the main factors behind increasing Canadian FDI flows to the country.

Like Canada's older agreements with Chile and Costa Rica, Canada's newer agreements seemed poised to produce some obvious benefits and some less clear-cut outcomes. Canada's FTAs with Colombia, Peru and Panama are all expected to generate further Canadian FDI flows, particularly in the extractive resource sector, which should also contribute to more extractive resource sector exports to Canada. Cut flowers and refined sugar were the only major dutiable Colombian exports prior to the FTA and should enjoy a boost. Meanwhile, most key Peruvian and Panamanian exports to Canada already entered the country duty-free and will not grow due to tariff reductions. However, total Peruvian and Panamanian exports should climb thanks to surging gold exports. Finally, Canadian exports to the three markets should marginally increase with agricultural exports such as wheat showing the most potential.

¹⁷⁴ Economic Commission for Latin America and the Caribbean (ECLAC). 'Chapter 4: Canadian FDI in Latin America and the Caribbean' in *Foreign Investment in Latin America and the Caribbean*. 2007, p. 161.

CONCLUSION

Canada's trade strategy in the Americas of signing bilateral FTAs with the region's 'free market' economies has had mixed results. Generally, it has not yet resulted in significantly increased export growth to the partner countries. After the Canada-Chile and Canada-Costa Rica FTAs came into force, exports increased only marginally faster than during the pre-FTA period. The newest FTAs will likely allow for a modest expansion, at least for agricultural products. The five partner countries constituted 24.47% of Canadian exports to Latin America, excluding Mexico, in 2010. That figure is only a touch higher than the 22.83% of Canadian exports to the region they accounted for in 1997, the year of the enforcement of the Canada-Chile FTA. Conversely, import growth from the partner countries has generally materialized. Chile's exports to Canada were fourteen times higher in 2010 than predicted using pre-FTA data. Costa Rica's exports to Canada were also higher than predicted using pre-FTA data, though they did not grow as substantially as Chile's exports. Canada's importance as a Peruvian export destination has surged over the past few years and especially since the enforcement of the FTA, as a result of Peruvian gold. Gold from Panama, as well as a few key products from Colombia, will also likely see large gains in the coming years. Canadian imports from the five countries as a percentage of total imports from the region amounted to 42.0% in 2010 in comparison with 19.48% in 1997.¹⁷⁵ Finally, Canadian FDI to Chile has seen a large boost since the FTA came into force while it has increased more slowly in Costa Rica. FDI is expected to continue to flow in large volumes to Peru and Panama, and to increasingly flow to Colombia, as a result of each FTA. So far,

¹⁷⁵ Calculations using Euromonitor International data, IMF Direction of Trade Statistics and trade sources/national statistics. Accessed April 25, 2011.

<http://www.portal.euromonitor.com.proxy.library.carleton.ca/Portal/Statistics.aspx>

Canada’s current Americas strategy has proven to lend itself to relatively weak Canadian export growth, relatively high import growth, and strong Canadian FDI outflows to countries with oil, gas and mining sectors.

Table 2: Existing Agreement Results

	Canadian Exports	Canadian Imports	Canadian Direct Investment
Canada-Chile FTA	Marginally Higher than pre-FTA trendline	Significantly Higher than pre-FTA trendline	Significantly Higher than pre-FTA trendline
Canada-Costa Rica FTA	Marginally Higher than pre-FTA trendline	Marginally Higher than pre-FTA trendline	Marginally Lower than pre-FTA trendline

Table 3: New Agreement Expected Results

	Canadian Exports	Canadian Imports	Canadian Direct Investment
Canada-Colombia FTA	Marginal Increase	Significant Increase	Significant Increase
Canada-Peru FTA	Marginal Increase	Significant Increase	Significant Increase
Canada-Panama FTA	Marginal Increase	Significant Increase	Significant Increase

Weak Canadian export growth

A number of reasons have been put forward to explain why the FTAs have led to overall weak Canadian export growth. In terms of Canadian exports to Chile, weak growth has been blamed on the small size of the Chilean market and its weak absorptive capacity for Canadian goods – an attribute which it shares with each of Canada’s Latin American FTA partners (Colombia’s economy is slightly bigger and Peru’s economy is slightly smaller). Moreover, in the case of Chile, the fact that it has free trade agreements with a large number of other major economies has been blamed for Canada’s inability to capture a bigger share of Chile’s imports. That attribute is applicable to Costa Rica, Colombia, Peru and Panama as well as they all have free trade agreements with other major economies. Canada’s FTAs may simply provide Canadian exporters with an even playing field vis-à-vis other major economies with FTAs and prevent Canada from losing market share. Speaking to *Canadian Business*, Dymond mentioned

that the government cannot use FTAs to determine the direction of exports, only the private sector can.¹⁷⁶ The Canadian private sector has obviously been predominantly focused on the U.S. market for most of the country's history and many Canadian exporters never look beyond the 49th parallel. Canadian companies have long been accused of failing to 'internationalize' and weak export growth to Canada's Latin American partners may be partially related to Canadian businesses' reluctance to seize international opportunities. Firms go international for a slew of reasons including economies of scale, tax benefits, saturated domestic markets, competitive pressures, proximity to a foreign market, and the firm may have a competitive advantage in a foreign market, among other reasons.¹⁷⁷ Canadian exporters tend to focus on the United States in order to achieve economies of scale and due to its geographical proximity to Canada as well as its 'psychological' proximity. The same language and similar culture has led many Canadian firms to view exporting to the United States merely as an extension of domestic business (likewise many U.S. firms consider Canada to be psychologically closer than Mexico). The psychological and geographical distance of Canada's Latin American trade partners can be seen as a barrier to sales for non-adventurous Canadian firms.¹⁷⁸ It should be noted that not only has Canada's Americas trade strategy led to relatively weak export growth, Canada's overall export growth has been stagnant since 2000.¹⁷⁹

¹⁷⁶ Campbell, Christina. 'Bilateral free trade pacts don't always live up to the hype'. *Canadian Business*. Vol. 79, No. 18, September 2006, p. 31-32.

¹⁷⁷ Czinkota, Michael. 'The Drive to Internationalize'. Chapter 1 in the *Export Marketing Imperative*. Thomson Learning. 2004, p. 4.

¹⁷⁸ *ibid*, p. 7-8.

¹⁷⁹ Hodgson, Glen. 'Post-Recession Trade Policy Needed Now (Commentary)'. Conference Board of Canada. March 2010. http://www.conferenceboard.ca/economics/hot_eco_topics/default/10-03-09/Post-Recession_Trade_Policy_Needed_Now.aspx

High import growth

High import growth can also be linked to a number of factors. In the cases of Peru and Panama, growth is almost uniquely tied to the exorbitant expansion of their precious metal exports (which is linked to the continually rising price of gold and increasing Canadian mining company activity in those countries). Enhanced precious metal and base metal exports are also partly responsible for Chile's increasing exports although sectors across the board have profited considerably from the FTA. While Canadian firms are considered relatively averse to exporting outside of the United States, Chile is considered a model exporting nation and Chilean exporters are believed to have taken full advantage of the FTA provisions. Chile has transformed the structure of its economy into one of the region's most open and export-oriented – a necessary makeover in order to maintain its high-paced GDP growth.¹⁸⁰ Costa Rica has followed the same path as Chile, for which, along with its democratic tradition, it was rewarded with large-scale investment from Intel. Intel semi-conductor parts were the main driver behind Costa Rican export growth to Canada. In the case of Colombia, expensive commodity prices and more Canadian mining, oil and gas sector activity will help drive export growth along with the country's push to make the economy more export-oriented. While only about 3% of Panama and Peru's main exports were dutiable prior to the FTAs, about 30% of Colombian exports were dutiable. Among Colombia's dutiable exports were cut flowers and refined sugar – two products in which Colombia enjoys noteworthy competitive advantages – and they should swiftly infiltrate the Canadian market once the FTA comes into place.

¹⁸⁰ Dymond, Bill. "Dix années de libre-échange Canada-Chili: Au delà des statistiques." Chapter 5 in *Les Recherches en politique commerciale 2007*. Department of Foreign Affairs and International Trade. 2007, p. 182.
http://www.dfait-maeci.gc.ca/economist-economiste/assets/pdfs/research/TPR_2007/Chapter5-Dymond-fr.pdf

Canadian FDI flows

Regarding Canadian FDI flows, they have strongly flowed to FTA partners with large mining, oil and gas sectors. The main investors in Chile, Colombia, Peru and Panama have been predominantly extractive resource firms (and in some cases financial firms). In the case of Costa Rica, where FDI flows grew at a slower rate than in the pre-FTA period, Canadian investment was largely concentrated in the tourism sector. The Costa Rican tourism sector grew in the 2000s but it began to really take off the previous decade. In the cases of Chile and Colombia, one of the main triggers for increased extractive resource sector investment has been the return to political stability – the end of the Pinochet regime and the weakening of the FARC respectively. The Chilean, Colombian, Peruvian and Panamanian governments' openness to foreign investment and trade has helped spur investment as well. Finally, the investor rights enshrined in the FTAs are believed to effectively assuage the fears of extractive resource sector investors.

Concluding remarks

Despite the mixed results of this study, Canada should continue to pursue its current trade strategy in the Americas. With the Doha Round talks incessantly stalled and the collapse of the Free Trade Area of the Americas, signing bilateral free trade agreements remains Canada's only truly viable policy option if it wants to move forward with trade liberalization in the region. The opportunity cost of negotiating agreements with Latin American countries is not that great, as the discussions usually mirror Latin America-United States negotiations. Canadian trade negotiators do not appear to lack resources – they are currently firing on all cylinders with minor and major trade partners. Collectively, if Canada concludes all of its ongoing talks with its prospective minor and major partners, it has potential to hugely benefit the economy. While it would be preferable if Canada could reach deals with other major countries in the region, it does not

appear to be an attainable goal in the foreseeable future. Lastly, high import growth can sometimes benefit Canadian consumers and companies and low export growth masks the loss of market share had no FTAs been signed. It is in Canada's best interest to continue pursuing free trade in the region unless it wants to be left in the dust by the world's other major economies.

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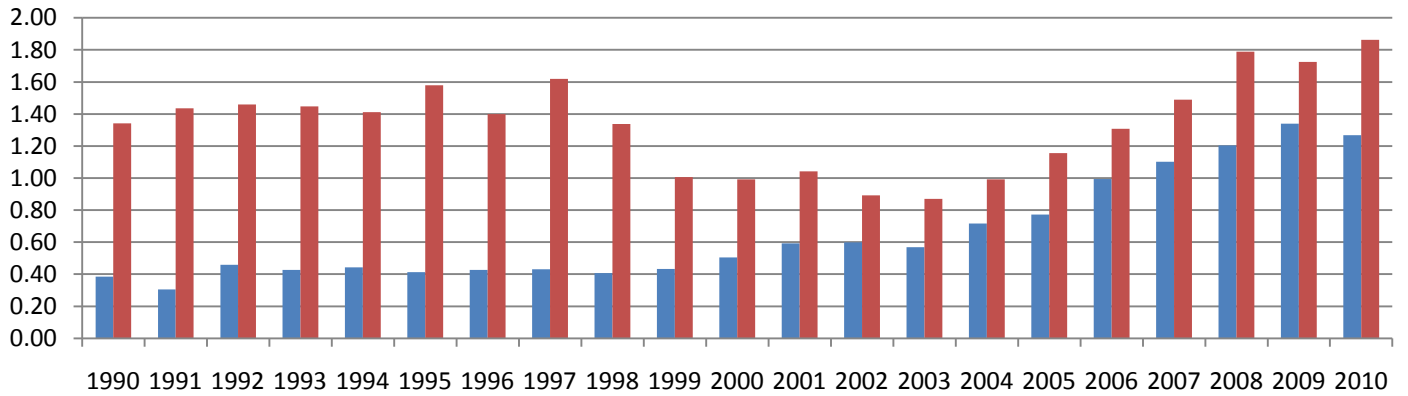
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ANNEX A: CANADIAN EXPORTS TO THE AMERICAS, CANADIAN IMPORTS FROM THE AMERICAS, AND CANADIAN DIRECT INVESTMENT ABROAD TO THE AMERICAS AS A PERCENTAGE OF TOTAL

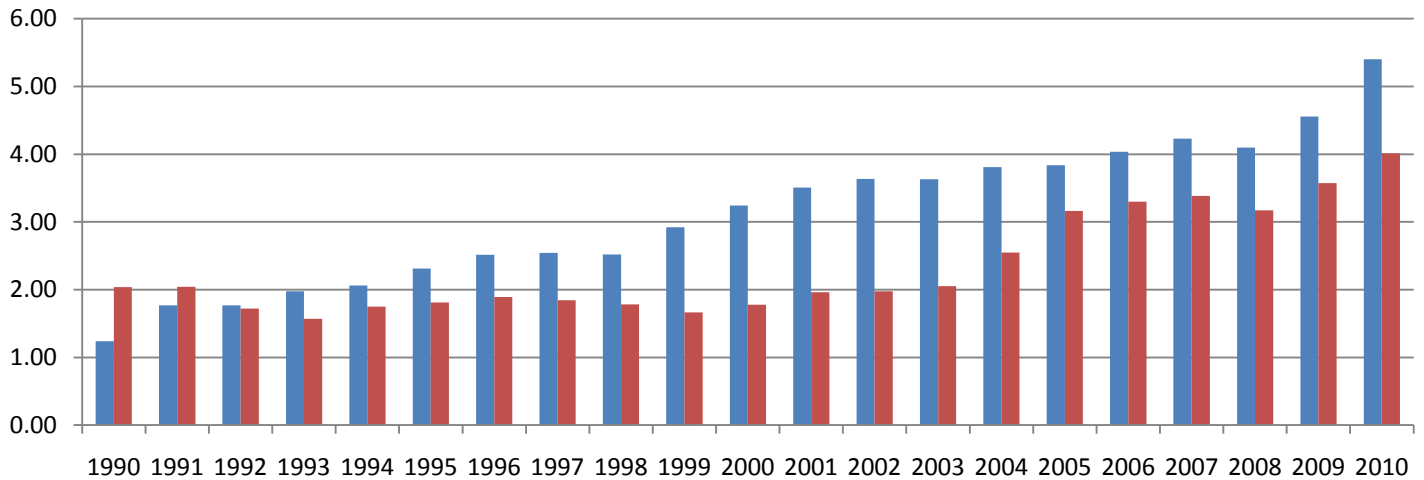
Figure 26: Canadian Exports to the Americas as a Percentage of Total Exports



Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Mexico ■ Americas (excluding Mexico and USA)

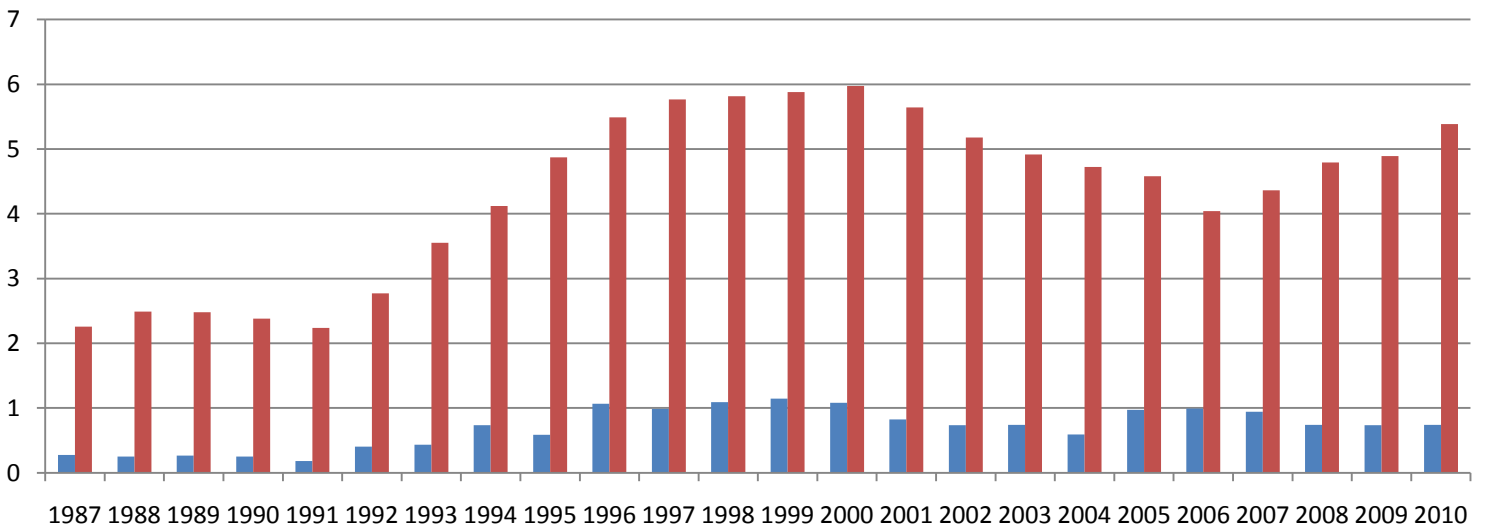
Figure 27: Canadian Imports from the Americas as a Percentage of Total Imports



Source: Euromonitor International, using International Monetary Fund (IMF) Direction of Trade statistics and national statistics

■ Mexico ■ Americas (excluding Mexico and USA)

Figure 28: Canadian FDI Outflows to the Americas as a Percentage of Total Canadian FDI Outflows



Source: CANSIM Tables v7117682, v7117703, v7117698

■ Mexico ■ Central and South America

APPENDIX B: SELECTED SECTOR EXPORT AND IMPORT GROWTH COMPARISONS, CHILE AND COSTA RICA

Figure 29: Canadian Merchandise Exports to Chile 2010

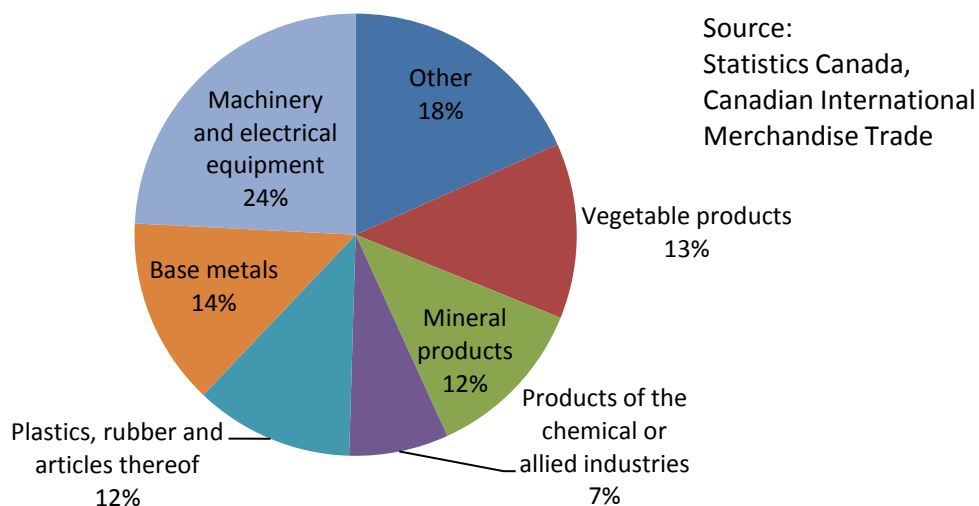


Figure 30: Canadian Base Metal Exports to Chile (in C\$ millions)

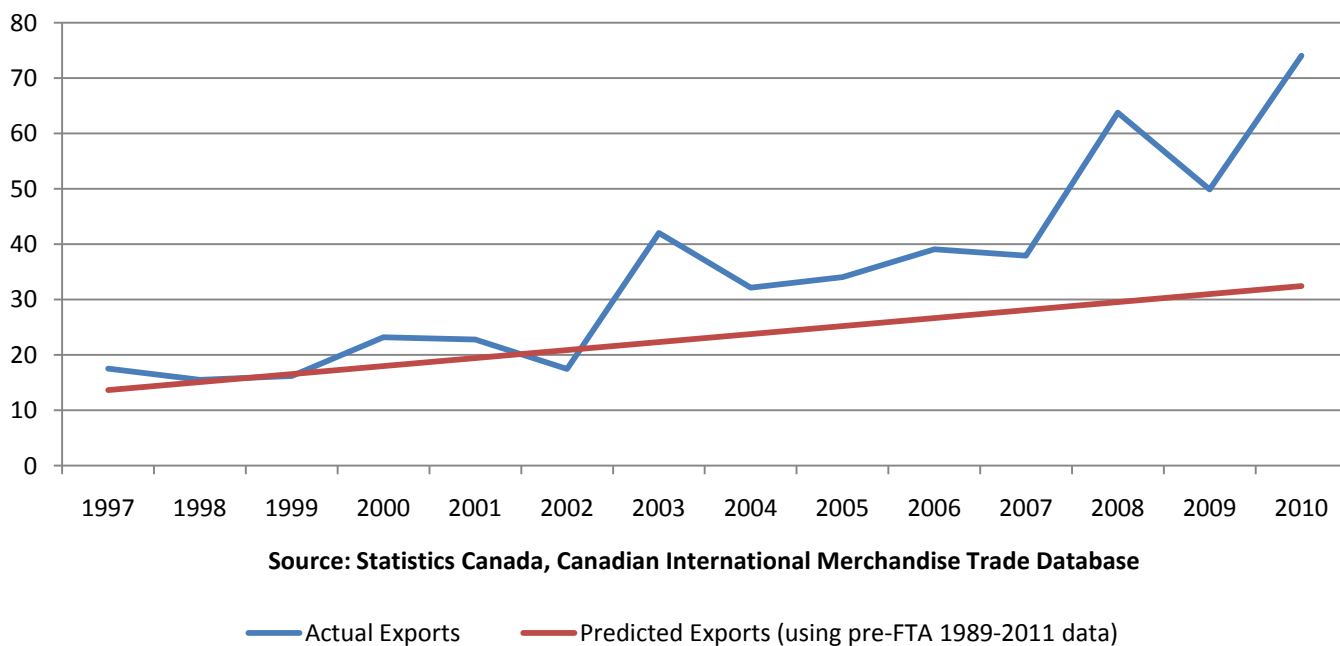


Figure 31: Chilean Merchandise Exports to Canada 2010

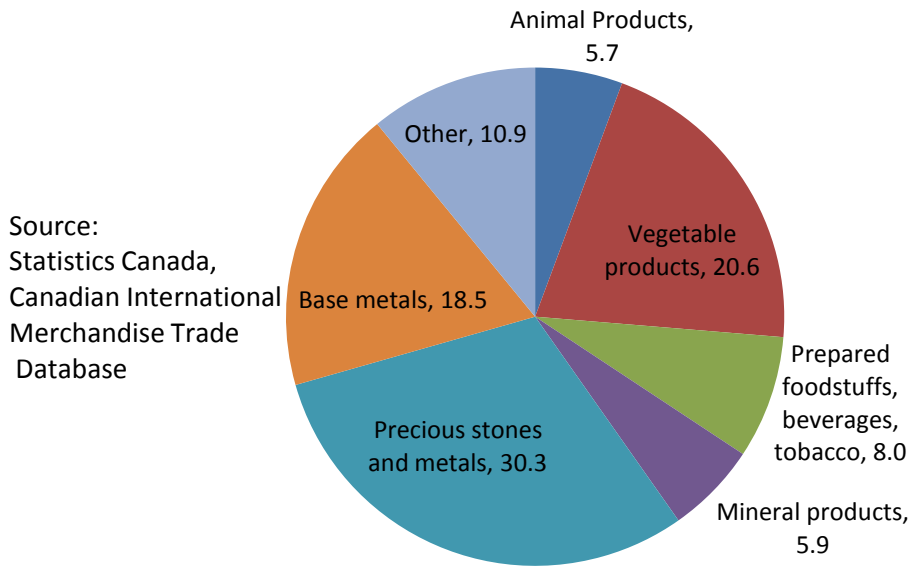
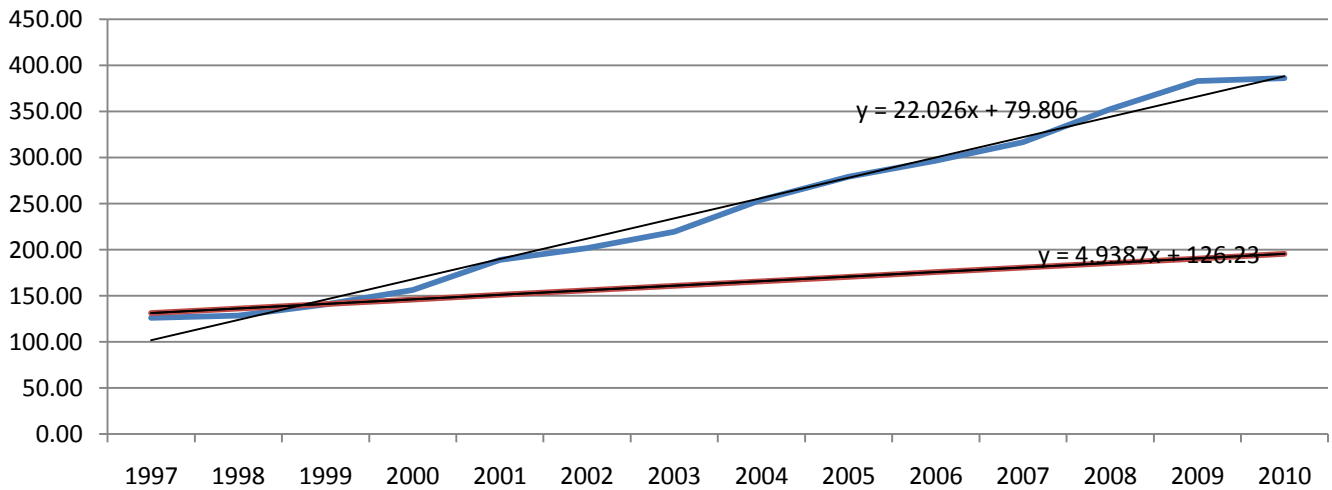


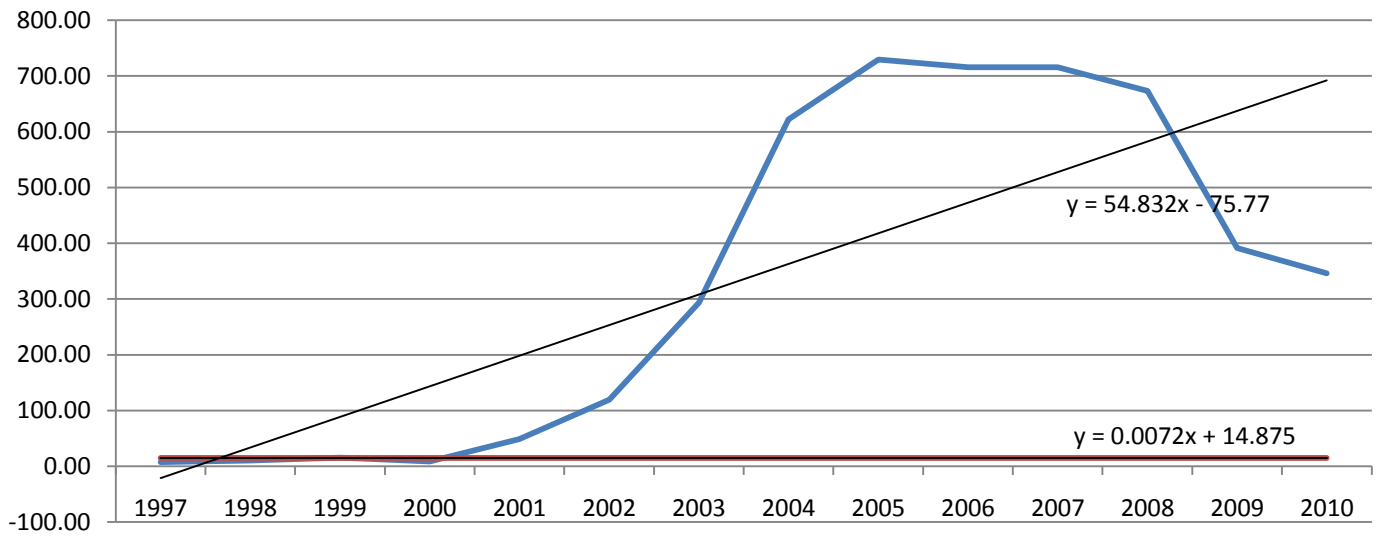
Figure 32: Chilean Vegetable Product Exports to Canada (in C\$ millions)



Source: Statistics Canada, Canadian International Merchandise Trade Database

— Actual Exports — Predicted Exports (using pre-FTA 1989-1996 data) — Linear (Actual Exports)

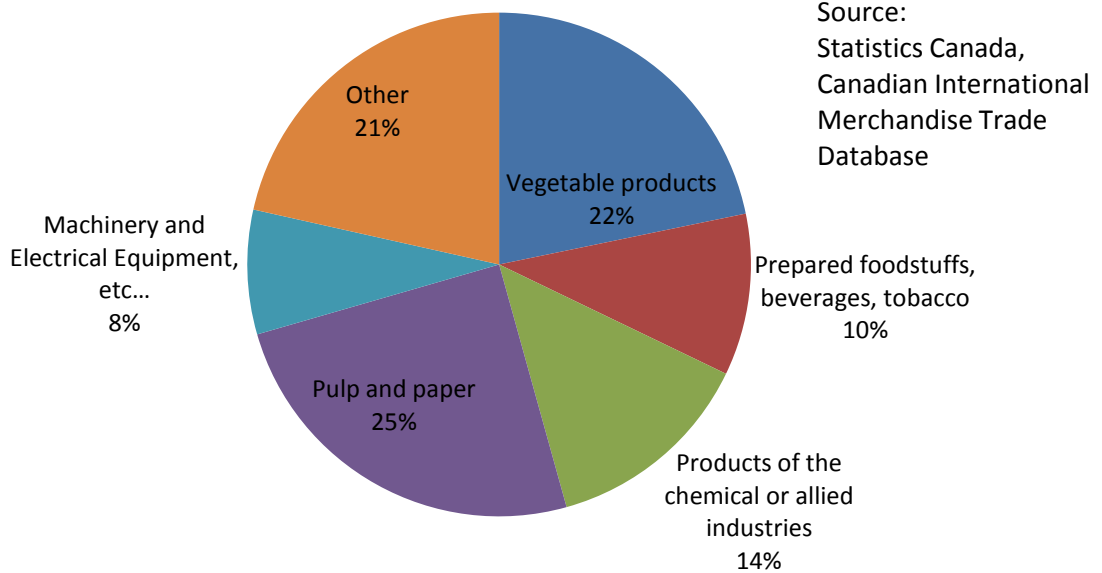
Figure 33: Chilean Base Metal Exports to Canada (in C\$ millions)



Source: Statistics Canada, Canadian International Merchandise Trade Database

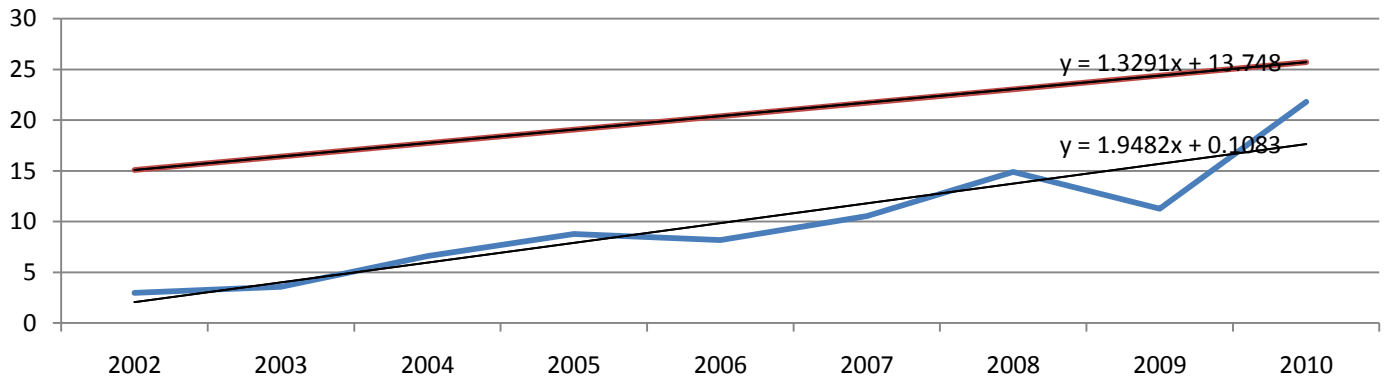
— Actual Exports — Predicted Exports (using pre-FTA 1989-1996 data) — Linear (Actual Exports)

Figure 34: Canadian Merchandise Exports to Costa Rica 2010



Source: Statistics Canada, Canadian International Merchandise Trade Database

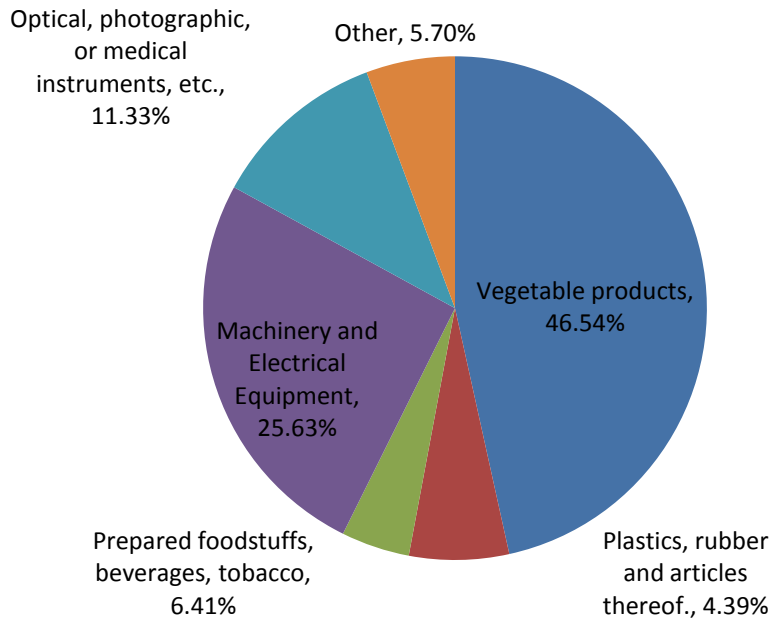
Figure 35: Canadian Vegetable Product Exports to Costa Rica (in C\$ millions)



Source: Statistics Canada, Canadian International Merchandise Trade Database

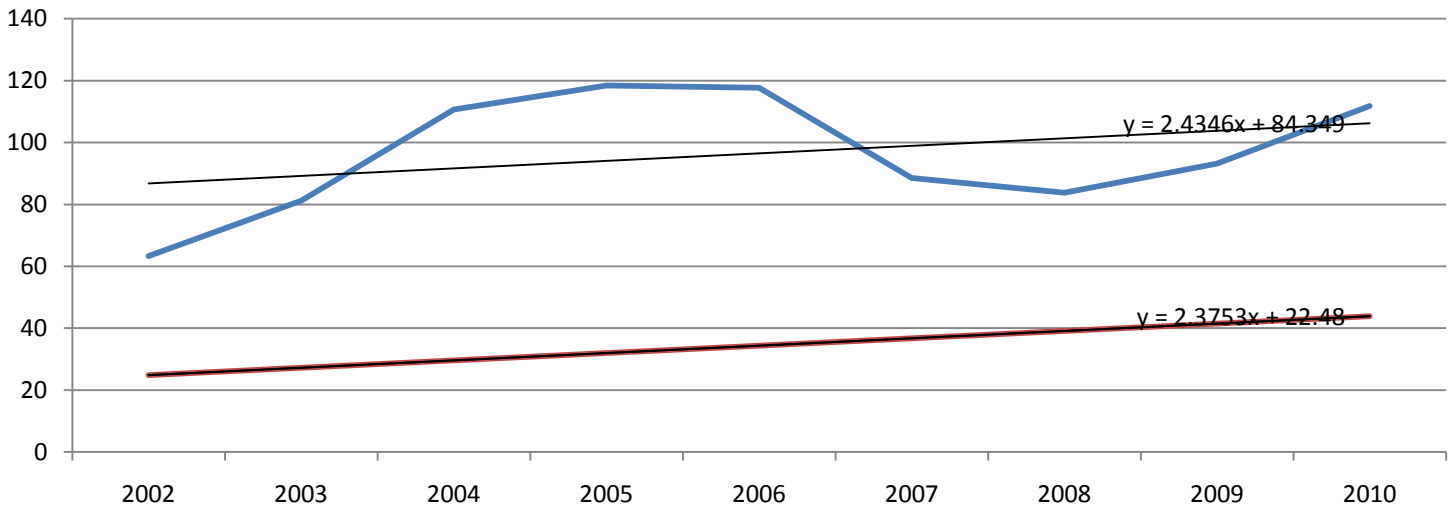
— Actual Exports — Predicted Exports (using pre-FTA 1988-2001 data) — Linear (Actual Exports)

Figure 36: Costa Rica Merchandise Exports to Canada 2010



Source: Statistics Canada, Canadian International Merchandise Trade Database

**Figure 37: Costa Rica Machinery and Electrical Equipment Exports to Canada
(in C\$ millions)**



Source: Statistics Canada, Canadian International Merchandise Trade Database

— Actual Exports — Predicted Exports (using pre-FTA 1988-2001 data) — Linear (Actual Exports)

Figure 40: Top 5 Canadian Exports to Costa Rica (in C\$ thousands)

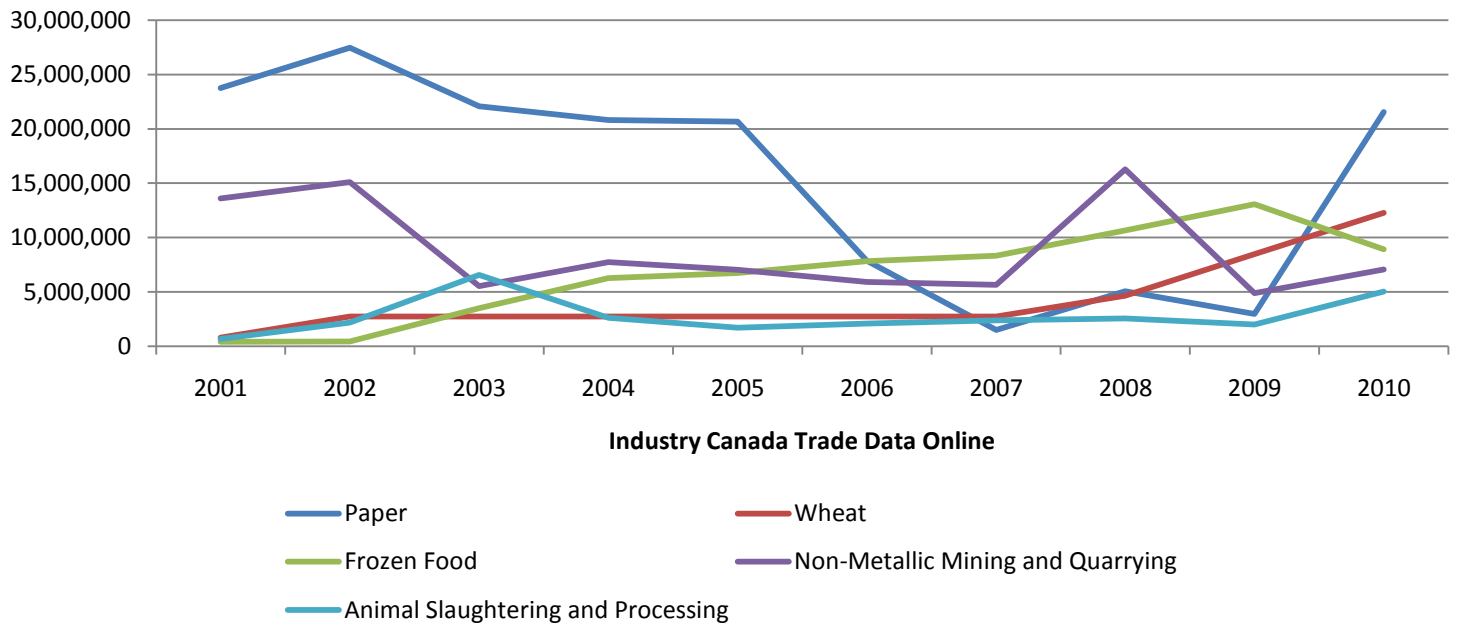


Figure 41: Top 5 Costa Rican Exports to Canada (in C\$ thousands)

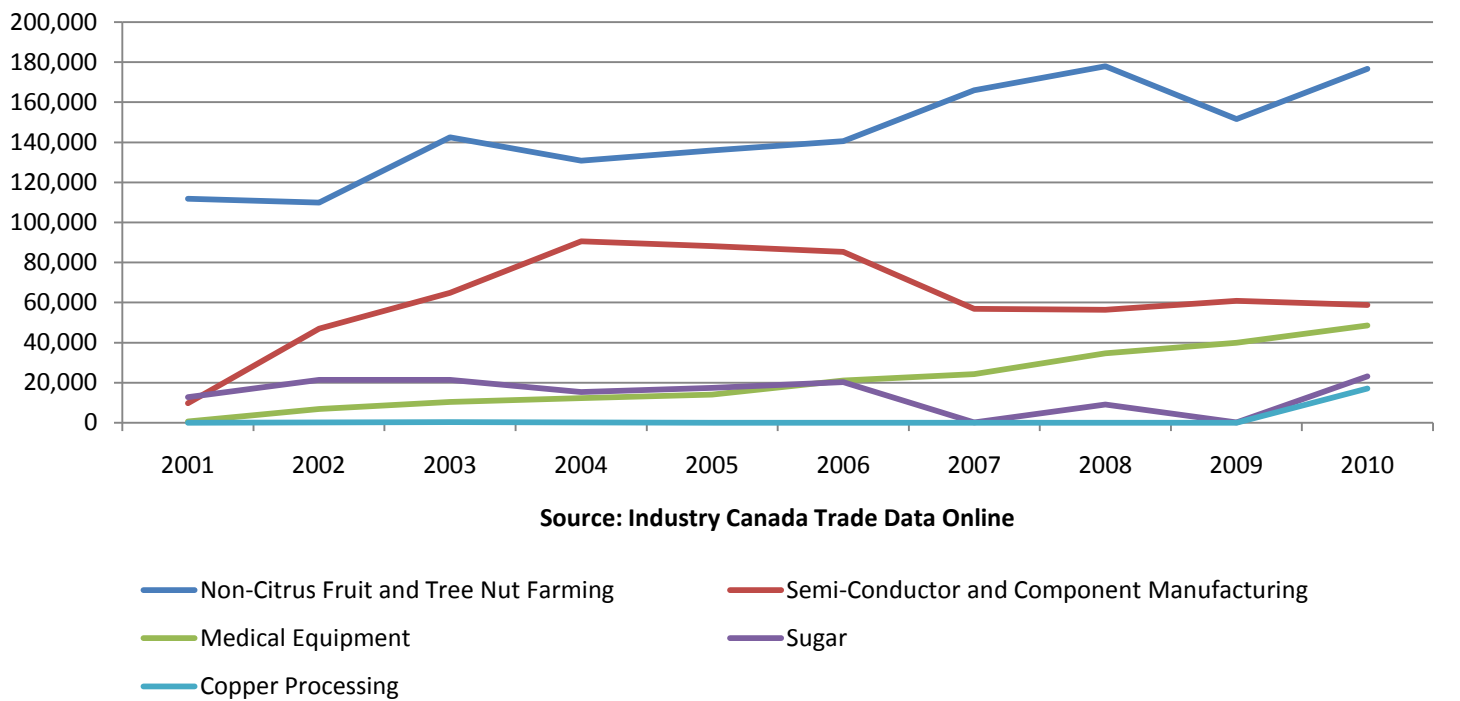
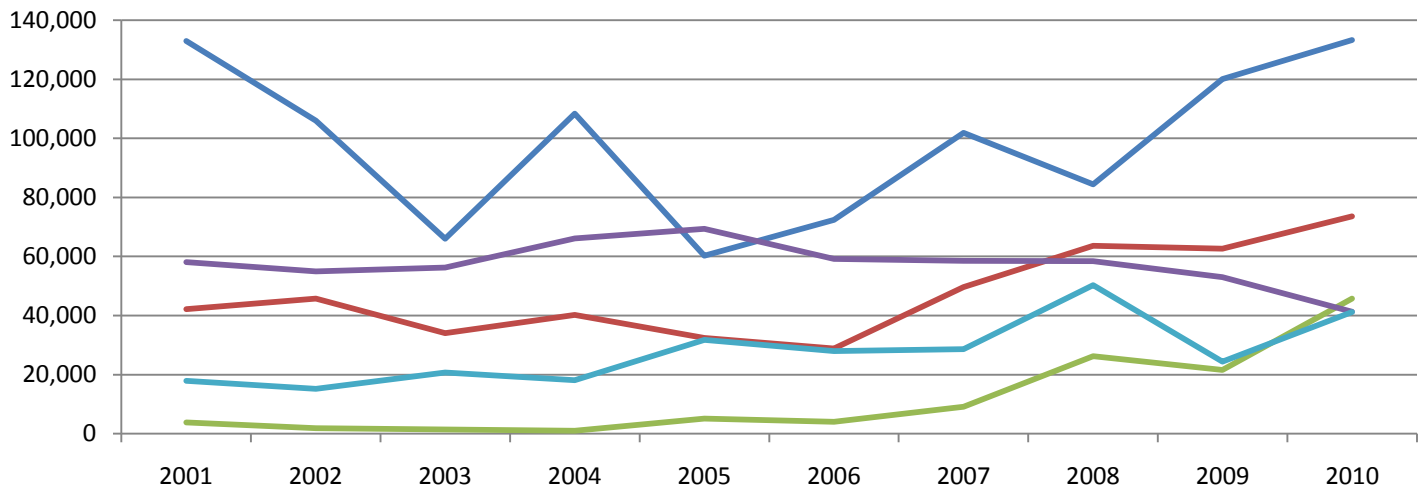


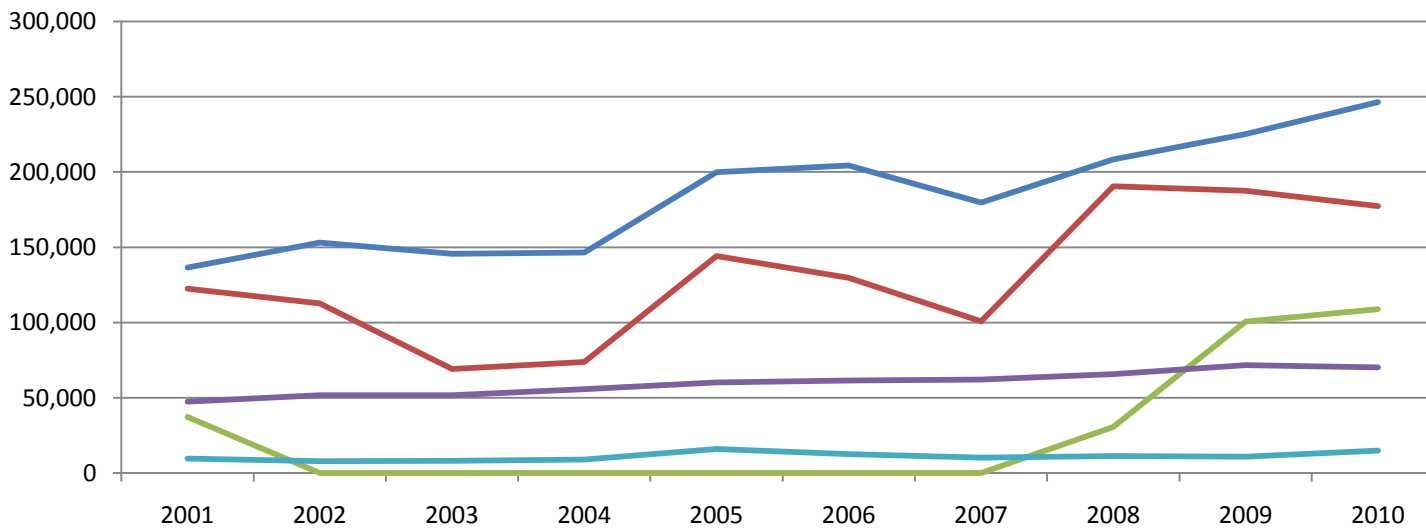
Figure 42: Top 5 Canadian Exports to Colombia (in C\$ thousands)



Source: Industry Canada Trade Data Online

- Wheat
- Dry Peas and Beans
- Mining, Oil and Gas Machinery
- Paper
- Other Non-Metallic Mineral Mining and Quarrying

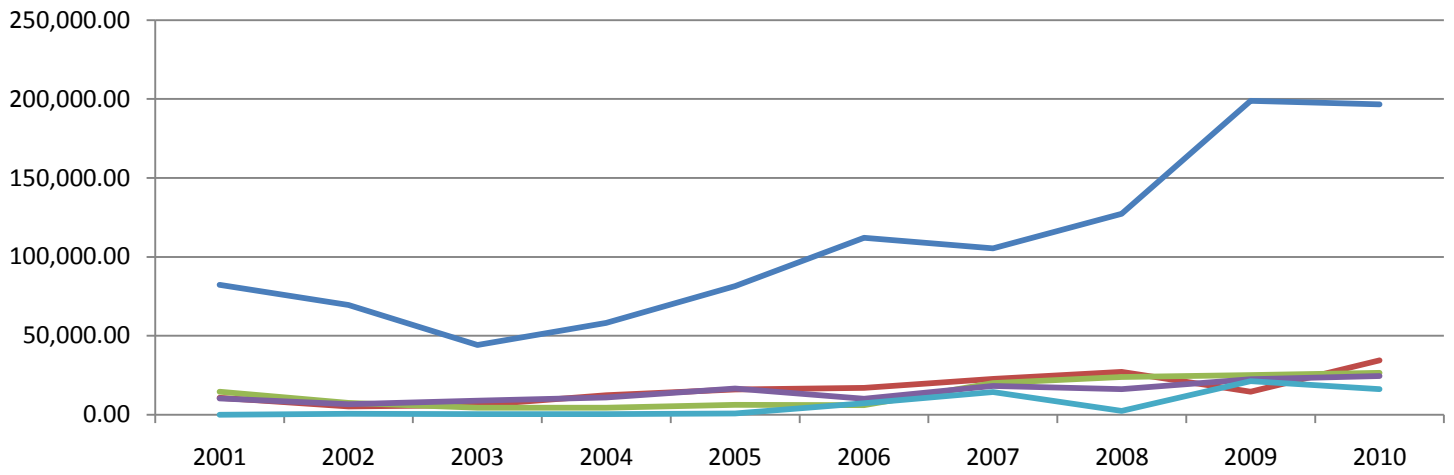
Figure 43: Top 5 Colombian Exports to Canada (in C\$ thousands)



Source: Industry Canada Trade Data Online

- Non-Citrus Fruit and Tree Nut Farming
- Coal
- Oil and Gas
- Cut Flowers
- Coffee and Tea

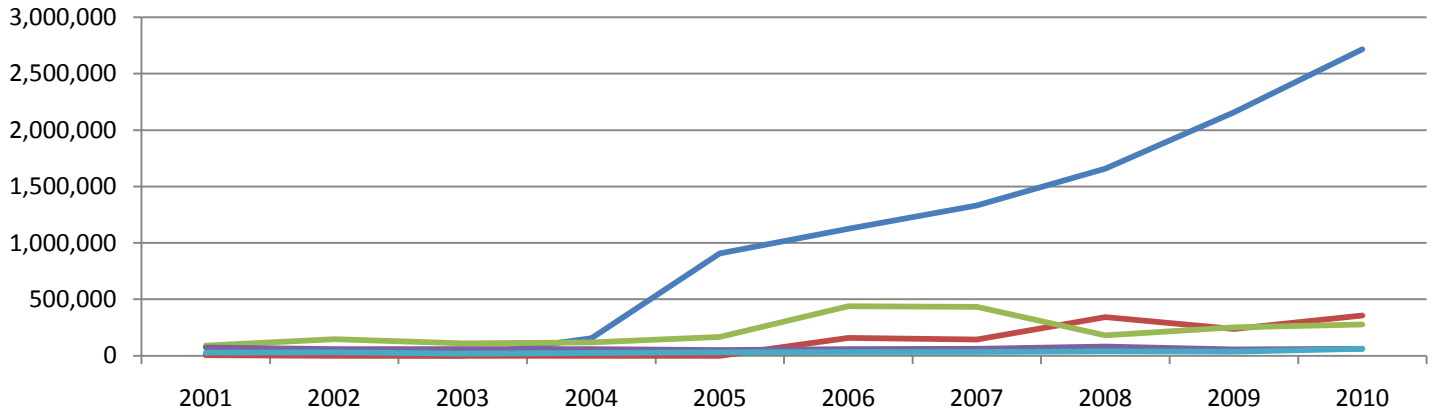
Figure 44: Top 5 Canadian Exports to Peru (in C\$ thousands)



Source: Industry Canada Trade Data Online

- Wheat
- Mining, Oil and Gas Machinery
- Paper Mills
- Dry Peas and Beans
- Aerospace Products and Parts

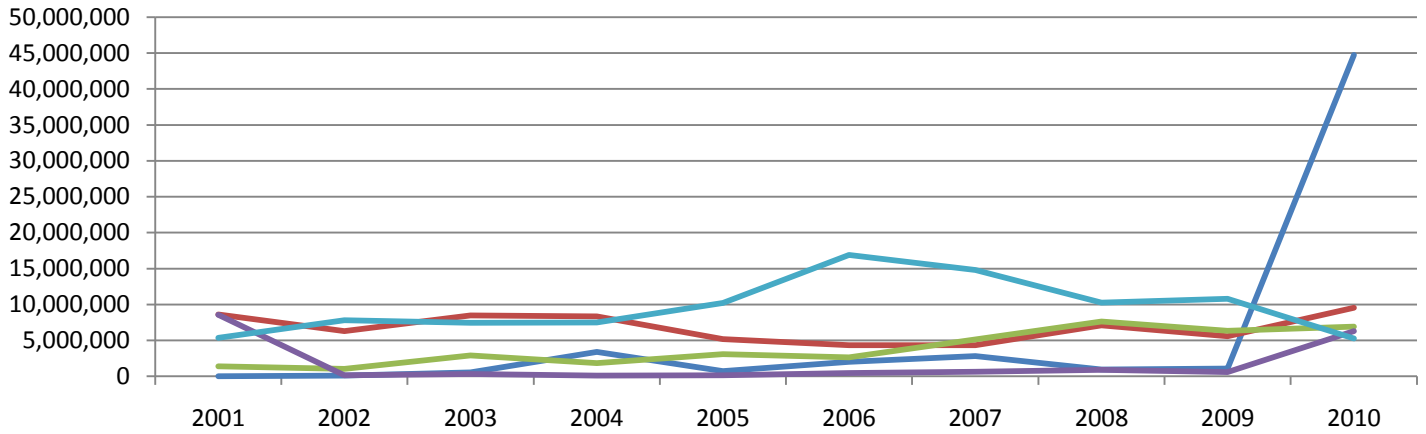
Figure 45: Top 5 Peruvian Exports to Canada (in C\$ thousands)



Source: Industry Canada Trade Data Online

- Gold and Silver Ore
- Petroleum Refineries
- Copper, Nickel, Lead and Zinc Ore
- Seafood
- Non-Citrus Fruit and Tree Nut Farming

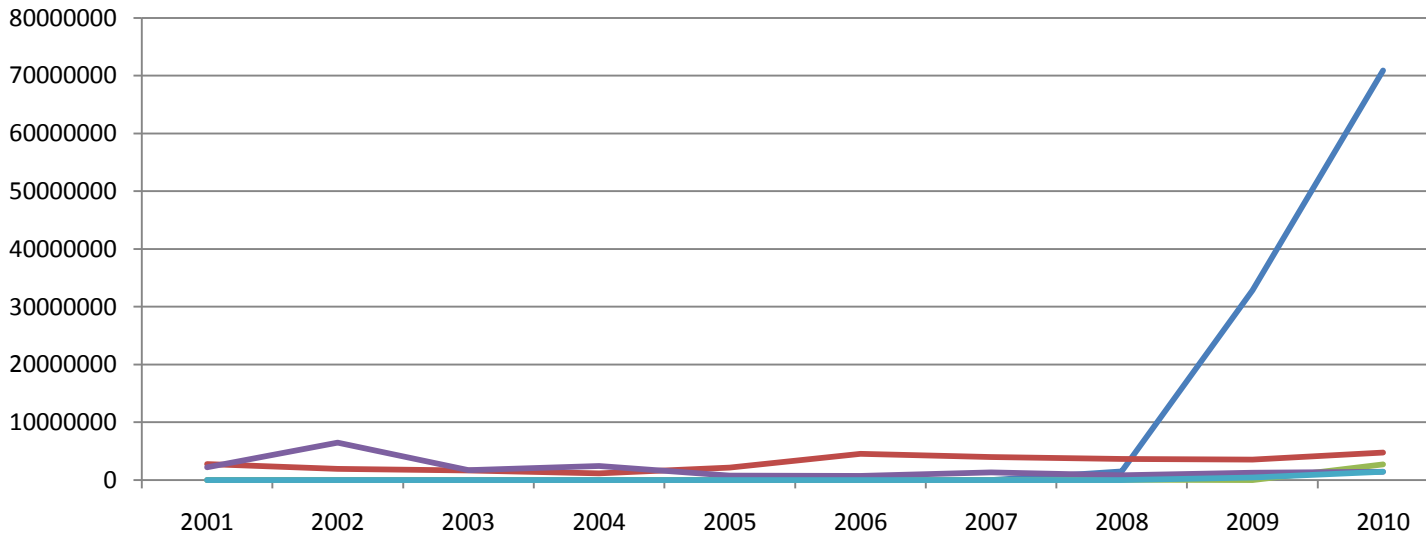
Figure 46: Top 5 Canadian Exports to Panama (in C\$)



Source: Industry Canada Trade Data Online

- Aerospace Products and Parts
- Animal Slaughtering and Processing
- Dry Peas and Beans
- Ship and Boat Building
- Pharmaceutical and Medicine

Figure 47: Top 5 Panamian Exports to Canada (in C\$)



Source: Industry Canada Trade Data Online

- Gold and Silver Ore
- Non-Citrus Fruit and Tree Nut Farming
- Mining, Oil and Gas Machinery
- Seafood
- Abrasive Product Manufacturing