

Canada-ASEAN Free Trade Agreement: Status update

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The supply chain and geopolitical shocks reverberating from the pandemic, Russia's invasion of Ukraine, and the evolving stance of many countries towards China have introduced a high degree of uncertainty into the global economy. Amidst this uncertainty, consumers and businesses around the world are searching for stability in their supply chains. These new political and logistical dynamics create opportunities, and certain governments (including the Canadian government) are responding by rebalancing their trading relationships.

As part of this rebalancing, Canada entered into free trade agreement negotiations with the Association of Southeast Asian Nations (ASEAN) in late 2021, with the goals of leveraging Canada's key strengths as a trading nation and solidifying trading relationships between Canada and a rapidly growing, and increasingly strategically important, bloc of countries. A growing population and ongoing urbanization in the ASEAN region, combined with the fallout from the COVID-19 pandemic and other global challenges, are increasing regional demand for food and energy. A robust free trade agreement could prove particularly important to Canadian producers of staple goods, including food, fuel and fertilizer. As the fourth round of negotiations approaches, this Update provides businesses with some background on Canada's relationship with ASEAN, the negotiations, and what to watch moving forward.

What is ASEAN?

ASEAN was formed in 1967 with five founding member states: Indonesia, Malaysia, the Philippines, Singapore and Thailand. Over time, ASEAN expanded and became more focused on fostering regional integration and economic growth. In addition to its five original members, the inter-governmental group now includes Brunei Darussalam (as of July 2023), Cambodia, Lao People's Democratic Republic (Laos), Myanmar and Vietnam. Today, the organization's member states have a population of more than 660 million.

A young and growing population has primed the region for strong economic growth. The average population growth rate across ASEAN members is 0.8% annually, roughly equivalent to India's recent population growth rate. Collectively, ASEAN members have a GDP of more than US\$3.3 trillion dollars, making the bloc the fifth largest economy in the world, and recent estimates from the Organization for Economic Cooperation and Development (OECD) suggest that the 10 economies in ASEAN will grow at a rate of more than 4.5% per year in 2024 and 2025. This sustained level of growth has translated into a rapidly expanding consumer class. Three of the five fastest growing consumer markets in the world are ASEAN members.

Canada's relationship with ASEAN

Canada enjoys robust diplomatic, economic, and people-to-people ties with ASEAN and many of its member states. Canada's relationship with ASEAN dates back to 1976, when it became a Dialogue Partner of the bloc. Canada's engagement with both ASEAN and its member states has deepened as the region has become increasingly economically and strategically important. In 2022, Canada announced it would seek to strengthen the relationship further, becoming a strategic partner of the bloc.

ASEAN is set to play a key role in Canada's future foreign policy, as outlined in the federal government's Indo-Pacific Strategy (IPS), launched earlier this year. ASEAN's role as a strategic and trading partner is at the core of the IPS, and agriculture and agri-food businesses are identified as priority sectors for development. For more than a decade, Canada's trade with ASEAN members in agriculture and agri-food has grown at an annual rate above 7%, and this growth remained resilient even during the pandemic.

However, modelling from the C.D. Howe Institute found exports to ASEAN countries should be even higher, and a free trade agreement can help nurture trade. ASEAN's growing consumer base and changes in consumer preferences which accompany higher levels of income are expected to further increase demand for Canadian products.

Legal instruments like free trade agreements are important tools to advance Canada's goal of strengthening a rules-based international order, while also serving to diversify export markets. In addition to the free-trade agreement negotiations with ASEAN, the federal government also committed to make a series of investments to help build stronger, more efficient, and more resilient trading ties between Canadian producers and markets in Southeast Asia. A free trade agreement with ASEAN would also complement Canada's efforts to reach a bilateral free trade agreement with Indonesia.

Current status of the negotiations

The 20th ASEAN-Canada Dialogue concluded in Kuala Lumpur at the end of May, with both parties reaffirming their desire to take the partnership to a new height. In addition to these regularly scheduled dialogues, negotiators from ASEAN and Canada have been hosting regular negotiating meetings. The Chief Negotiator-level meeting occurred in April, and a fifth round is scheduled for the early fall.

Free trade negotiations are complex, and ASEAN's mix of advanced and emerging economies presents a unique challenge. Canada's intent to include provisions on labour rights, environmental protection, and gender equality may be more difficult to find support for with some ASEAN members.

Therefore, alongside ongoing negotiations with ASEAN as a bloc, Canadian officials, including Minister of Foreign Affairs Mélanie Joly, have met with leaders of ASEAN countries in an effort to shore up support for an agreement. Canada's ability to find vocal supporters of the agreement inside the bloc will be important for successful negotiations. Some commentators also have suggested that Canada follow a similar 'staggered' path to that followed by Australia and New Zealand during their negotiations with ASEAN, where a basic free trade agreement has been substantively revised and expanded over time.

What to watch

The parties are in the process of developing draft text for certain chapters of the agreement. A finalized draft of the entire free trade agreement between Canada and ASEAN is likely still some time away. However, monitoring Canada's progress in the negotiations and milestones set out in the IPS can provide insight into the government's efforts to deepen ties in the region and open new business development opportunities and market access for Canadian producers.

Osler's International Trade Group and Agribusiness experts are monitoring the ongoing negotiations. If you have any questions regarding how a free trade agreement with ASEAN could impact your business, or any matter related to Canada's existing trade agreements, please contact a member of our team who would be happy to assist.