Seizing Canada's potential: A renewed trade policy agenda

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Canada's access to world markets depends largely on our transport connectivity, especially in regard to bulk and container shipping services. Supportive international trade policies that promote market access, reduce technical barriers to trade and provide foreign investment in other countries with legally binding rights are catalysts that will drive our future economic growth and subsequent trade volumes.

Canada has made important strides in improving our transportation infrastructure. The Asia-Pacific Gateway Initiative is perhaps the most visible manifestation. Gary LeRoux, Executive Director for the Association of Canadian Port Authorities states: "the 2008 changes to the *Canada Marine Act* allowed federal stimulus funding to flow to infrastructure projects which helps to ensure that there is sufficient port capacity in place so Canada is not caught flat-footed when more trade arrives on our shores."

From Canadian shores it is hard to tell whether the international maritime transportation community was aware that during the previous five years the Conservative Party was slowly advancing Canada's trade interests. The international shipping community's prime focus and attention is often directed towards policy developments in larger markets and tends to ignore low-profile Canadian domestic policy discussions. This is not surprising since Canada is a small market in terms of the overall flow of international trade. For example, the United Nations Conference on Trade and Development (UNCTAD) data indicates that in 2009 Canada ranked 28th in the world in annual container throughput traffic volumes and 26th in their Liner Shipping Connectivity Index.

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Yet since the June 2011 election of a majority Conservative government, a renewed and vigorous trade policy agenda has been unfolding. The Honourable Jim Flaherty, the federal Minister of Finance, articulated this strategy when he presented the Economic Action Plan 2012 in March. He stated in his budget speech that the government was "undertaking the most ambitious trade expansion plan in Canadian history". For this reason I believe it is important to explore some of the factors driving the change in Canada's policy emphasis and examine where our international trade policy may be headed.

The changing nature of negotiating forums

Since the start of the World Trade Organization's (WTO) Doha Round in 2001, little substantial progress has been made. Professor Debra Steger of the University of Ottawa, recently concluded in her article, "WTO Resilient But Changed After Ministerial" that the United States, the European Union and others, including Canada, have, for all intents and purposes, abandoned the WTO as the primary focus of their trade negotiation initiatives.

Professor Steger's article states that "instead, the priority in developed-country capitals is on negotiation of preferential "new generation" economic and trade agreements with other major partners, as well as plurilateral negotiations, such as the Trans-Pacific Partnership".

Political leaders in other countries have pragmatic economic reasons for adopting an alternative approach to WTO trade liberalization. They needed to find a way to quicken the pace of trade liberalization for domestic policy reasons. For example, in April 2012 the China Council for the Promotion of International Trade indicated that as China moves away from its dependency on export markets and encourages more trade with countries with which it has signed FTAs, the value of goods moving between the ASEAN bloc and China is forecast to increase at a faster rate than imports and exports between China and its more established trade partners. The members of the 2010 ASEAN-China Free Trade Agreement are set to become China's largest trading partners by 2015.

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The second reason is that the evolution of international trade requires a more responsive trade policy. The Organization of Economic Cooperation and Development (OECD) researchers Koen De Backer and Norihiko Yamano, in their 2010 paper *International Comparative Evidence on Global Value Chains,* write that a rapid globalization of economic activity has significantly changed the outlook of the world economy. A growing number of firms, countries and other economic actors have become increasingly connected across borders. International production trade and investment are increasingly organized within so-called global value chains where the different stages of production processes are located across different countries.

De Backer and Yamano's research provides evidence that clearly shows that countries' exports are increasingly composed of intermediate inputs that are imported from abroad; between 1995 and 2005, the import dependency of exports increased in almost all countries. This trend was particularly strong in Luxembourg, Poland, the Slovak Republic, China and Greece. In sharp contrast, the import content of Canadian exports decreased between 1995 and 2005 from 30 to 24 per cent.

De Backer and Yamano's research further reveals that Canada showed a relatively higher vertical specialization in final goods and services in 1995, indicating a relatively stronger commitment of Canada to final assembly activities. But Canada's position has weakened since that time. The import content of Canadian exports of intermediate goods/services has stayed relatively stable over the period, suggesting that the position of Canada has changed somewhat in terms of global value chains, from downstream activities of final products to more upstream production of intermediate products.

Current situation

Discussions with Mr. Jean-Michel Laurin, Vice President, Global Business Policy for the Canadian Manufactures and Exporters (CME) reveal that business and government trade officials are aware that the international global value chains are changing. Without new trade agreements, Canada's manufacturing firms miss the opportunity to become fully integrated. Mr. Laurin cited record sales of CME members in markets as diverse as China, South America and the Middle East as examples where specialized Canadian manufacturing firms are globally competitive.

While the federal government's international trade policy agenda may have been relatively obscure during the days of a minority parliament, the key question being asked now by B.C.'s business and transportation community is whether there are solid reasons for increased optimism? Which countries and when will tangible results occur now that there have been bold public pronouncements of an ambitious trade agenda?

Answers to the above questions are likely to influence the future direction of the trends driving Canadian manufacturing supply chains. For example, improved market access for Canadian energy exports of liquefied natural gas and crude oil to overseas markets has the potential to reinforce the existing trend to more upstream production of intermediate products. In sharp contrast, a Free Trade Agreement with the European Union would provide more value-added opportunities for Canadian manufacturers. So port authorities, shippers, railways, pipeline companies and others have an acute and vested interest in knowing the Conservative government's priorities and most importantly the steps the government is taking to ensure public support for their ambitious trade agenda.

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To date, progress on completing new international trade agreements has been very modest. Before 2006, Canada signed only three new trade agreements in 13 years. Since the Conservative government was first elected, Canada has signed new trade agreements or associations with nine countries. The agreement with the largest market potential to generate significant trade volume growth was the Canada-European Free Trade Association. This agreement primarily involves tariff reductions and a full Free Trade Agreement. However, an expanded European Union Comprehensive Economic and Trade Agreement (CETA) has remained elusive.

The remaining FTAs have been concluded with one country in the Middle East and four countries in Central/South America. While these accomplishments may represent the potential for increased trade volume for some eastern Canadian ports, none of these agreements truly provide Canadian firms significant opportunities to become integrated into the global value chains in the world's fastest growing markets, according to Jean-Michel Laurin. Gary LeRoux, of the Association of Canadian Port Authorities, observes, "the completed agreements are mostly with smaller countries. The federal government has to get serious and sign deals with the EU and other BRIC countries, the big guns, to have any real effect on our trade numbers. The Prime Ministers and other Ministers' visits to ASEAN countries is late evidence that they realize this."

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While the number of completed trade agreements is important, it is also instructive to observe that the Canadian Government has also been negotiating Foreign Investment Promotion and Protection Agreements (FIPA) where legally binding rights and obligations have been established in bilateral negotiations. Professor Steger stated: "on his recent trip to China, Harper signalled his intention to conclude a FIPA with China, although the agreement has not been signed as yet. We are also close to concluding a major investment agreement with India".

Government priority initiatives

The Canadian government has indicated that the United States will remain our largest and most important trading partner and priority. They plan to continue working with the U.S. to implement the joint Beyond the Border plan to strengthen and deepen the economic and security links between the two countries. The CME's Mr. Laurin agrees that enhancing trade and regulatory co-operation within North America should be a priority due to the existing level of manufacturing production integration between the two countries.

In the 2012 federal budget speech, the Conservative government stated that they would conclude negotiations on new trade agreements with the European Union and with India, begin entry talks with the Trans-Pacific Partnership, and continue to build a growing trade relationship with China.

The recent decision to pursue free trade negotiations with Japan is a sign of a renewed trade agenda with a major significant Asian market. However, the Korean trade negotiations are on hold. Professor Steger stated that "the E.U. and U.S. both already have major new trade agreements with Korea and the U.S. agreement is awaiting ratification by the Korean legislature".

Business community priorities

Mr. Jean-Michel Laurin, Vice President, Global Business Policy for the Canadian Manufactures and Exporters indicated that priority markets for his members would be the European Union, India, the Trans-Pacific Partnership (TPP), South America and China. The "TPP is likely to become a blueprint for Asia" and the fact that the U.S. was a participant was also cited as being vital to Canada's strategic trade interests. Yet, Professor Steger noted that Canada has "asked the nine parties currently involved in the Trans-Pacific Partnership negotiation to allow us into that negotiation, but formal approval to admit us has not yet been given by the parties to that negotiation."

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Building public support for a renewed trade agenda

The April 2012 release of the Asia Pacific Foundation National Opinion Poll: Canadian Views on Asia serves as an important reminder that a successful international trade agreement requires domestic support. The research revealed that Canadians generally support entering into free trade agreements with countries around the globe, especially the European Union and Japan. However, the poll yields significantly lower levels of support where other Asian Countries such as China, India and South Korea are concerned.

Mr. Laurin emphasizes the fact that a renewed trade agenda presents the government with an opportunity to improve the effectiveness of the business community's input, and better coordination by the government will help ensure that government policy outcomes are aligned with the priorities of Canadian firms. Members of the transportation community need to become more active participants and voice their opinions on trade liberalization priorities to help build domestic policy support for free trade agreements, if Canada is to seize its full international trade potential.

Conclusion

From an international shipping perspective, Canada is primarily viewed as a NAFTA trade-dependent nation. To change this perspective tangible results from the current government's strategy are required. Steger suggests that the CETA "negotiations are the most likely to lead to a conclusion soon — by sometime next year" but other agreements may take more time to finalize.

Michael Hart, the Simon Reisman chair in trade policy at Carleton University, noted in his book, *Fifty Years of Canadian Tradecraft,* that as a "relatively small player Canadians need to be quick, early and creative if we are to influence the content and course of a trade negotiations". B.C.'s shipping community would be well served if our political leaders heed Mr. Hart's advice.

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