



CANADIAN GLOBAL AFFAIRS INSTITUTE
INSTITUT CANADIEN DES AFFAIRES MONDIALES

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by Colin Robertson
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COMMENTARY

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Constructive powers such as Canada need to stand up in support of the rules-based, liberal international order. Our economic prosperity depends both on putting our own house in order and sustaining and reforming the global operating system.

Most of what we eat, drink and wear – and what we travel in – is made possible by trade. To put Canada's situation into context:

- International trade represents [60 per cent](#) of our GDP.
- [One in five](#) jobs is linked to exports. Canadian prosperity and wellbeing depend on our ability to trade and to attract investment.
- While Canada represents roughly half of one per cent of the world's population, we account for [2.5 per cent of global merchandise exports](#).
- Canada [ranks](#) 12th in the WTO's table of leading exporters, ninth as importers and 18th in exports of commercial services. Include [interprovincial](#) commerce and 80 per cent of the Canadian economy depends on trade – internal and external.
- [Half](#) of what Canadians produce is exported. Some of it comes back as part of supply chain dynamics, especially for the North American auto trade. Most of this commerce travels back and forth by truck, although rail traffic is increasing. The [majority](#) of cross-border trade is intra-firm; the remainder is within global value chains.
- As a global breadbasket – we are the [fifth largest](#) global exporter – Canadian production is vital to feeding the world. Our food industry contributes over [\\$110 billion](#) annually to Canada's gross domestic product (GDP); that's more than the national GDP of two-thirds of the world's countries. We produce about 75 per cent of the world's maple syrup. We are the world's [largest exporter](#) of flaxseed, canola, pulses, oats and durum wheat, and third largest exporter of pork products.

A liberal trade policy has been and remains fundamental to Canada's prosperity. The Fathers of Confederation agreed to reduce interprovincial trade barriers as part of creating a nation. They knew it would help promote Canadian exports and attract the foreign investment necessary to build factories and finance the railways to transport our goods to market.

The world has changed, but the trade verities that applied back then continue to apply in 2018.

We still sell what we harvest from our oceans, fields and forests, and what we mine onshore and offshore. Resources – what we mine from the ground and what we harvest from the land and sea – continue to anchor the Canadian economy. The monetization of these resources requires freer access to global markets.



We still need foreign investment and we still need better infrastructure – cyber-secure rail, pipe, grids and ports – to get our products and services to our global customers.

Fixing the Home Front

Free trade within Canada remains Confederation’s unfinished promise.

We need continued effort, building on the [Canadian Free Trade Agreement](#) (2017), to reduce pernicious interprovincial trade barriers that defy the logic and promise of Confederation. A [study](#) (2015) by University of Calgary economists estimated that internal trade barriers add somewhere between eight- to 15 per cent in costs to goods and services that cross provincial boundaries. Remove these barriers and Canada’s national productivity could grow by between three- to seven per cent – adding roughly \$100 billion to Canada’s economy, or an annual gain of [\\$7,500 per family](#).

A Senate of Canada report (2016), [Tear Down These Walls](#), argued “Canadians should be able to practise their profession or trade, operate a business whose goods and services can cross provincial/territorial borders, and purchase goods and services both freely and without penalty anywhere in this great country. The inability to do any of these diminishes us as a country, and makes citizens and businesses more tied to their region than to their nation.”

I encourage provincial legislators to follow through on the premiers’ [commitment](#) (2018) to address interprovincial barriers in agriculture, transport and business registration, and to focus on their regulatory reconciliation and co-operation [work plan](#).

Provinces need to factor competitiveness into their decision-making. Keeping [ride-sharing](#) out of British Columbia is a disincentive to investment from digital giants like Amazon. The Ontario decision to kill a [German-owned](#) wind energy project will deter EU investors.

We must stay competitive. In the wake of President Donald Trump’s tax changes, we need to re-examine our [corporate tax system](#) and be sure that our proposed [carbon pricing](#) system – a necessary step – does not disadvantage our ability to do business. We also need to move ahead with our rail, road, pipeline and electrical grid improvements. While federal money goes into many of these projects, provincial and municipal governments are in most cases responsible for their permitting and construction. They would benefit from Sir Winston Churchill’s admonition for “action this day”.

Actions designed to improve internal trade and the means for trade will improve our international competitiveness. It is the best way to prepare for the first ministers’ meeting that Prime Minister Justin Trudeau will host this fall to discuss [diversifying international trade](#).



Trade Negotiations

Canadians are able trade negotiators. Once the preserve of the trade policy cognoscenti operating behind closed doors, trade negotiations today are highly public and very political. In forums such as the WTO, the OECD, the IMF and the World Bank, Canada often plays the role of helpful fixer and bridge to consensus. It's the right thing to do and it also advances our own interests as a nation that draws [most](#) of its annual income from trade.

The WTO reports global trade in 2017 experienced the [highest growth rate](#) since 2011. Developing countries now account for [43 per cent of world trade](#), underlining why Canada needs to be a first mover in securing trade agreements in the Indo-Pacific, the Americas and Africa. But Trump's protectionism, especially the looming trade war with China, threatens global turmoil in trade.

The NAFTA negotiations are our current effort to renew secure access to the U.S., our most important market. The new transatlantic and transpacific agreements – the Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – are the most recent initiatives to secure preferred access to foreign markets for Canadian goods, services and investment.

I encourage you to pass the CPTPP-implementing legislation. I believe the CPTPP will become the platform for Indo-Pacific trade. We should encourage China, India and the ASEAN nations to join this new high-standard trade arrangement. Perhaps someday the U.S. will sign on.

Canadians have earned a place in global supply chains, most notably in the manufacturing of planes, trains, automobiles and energy-related products. We are also leaders in critical service industries like banking, insurance and engineering. [Services](#) are increasingly important to the Canadian economy, employing approximately [three in four](#) Canadians and providing [43 per cent](#) of the value added in exports.

North American Accord

We need a new North American accord that would include and set the standards in emerging areas like e-commerce and the growing digital trade. Getting a new deal is vital to Canadian prosperity. One in six jobs in Canada is related to exports and [77.8 per cent](#) of Canada's total merchandise exports were destined for our NAFTA partners in 2016, with almost 75 per cent destined for the U.S. alone. Trade with the U.S. accounts for an estimated [1.9 million](#) Canadian jobs.

NAFTA worked to the [benefit](#) of all three partners – Canada, the U.S. and Mexico – but it is time to bring NAFTA, negotiated before the digital age and the arrival of e-commerce, into the 21st century.

The Trans-Pacific Partnership (TPP) would have largely accomplished this, but Trump withdrew from this Obama administration initiative as he did with the Paris Climate Accord. He has also



frozen negotiations with the European Union over a transatlantic trade and investment partnership, because of his belief that multilateral trade agreements disadvantage the U.S.

Trump's [mercantilist](#) approach – Canada and Mexico are expected to “give” without “anything in return” as Commerce Secretary Wilbur Ross put it – is wrong. As Trump outlined in his book, *The Art of the Deal*, divide-and-conquer is his strategy and he would like to divide Canada and Mexico. As he has said from the outset, he doesn't like making deals with more than one because he thinks it undermines his leverage.

We need to recognize that Trump does possess certain leverage, as our relative dependence on U.S. trade is higher. Both Canada and Mexico send approximately three-quarters of their exports to the U.S., while the U.S. ships around [15 per cent](#) of its exports to Canada and [14 per cent](#) to Mexico.

According to [Trevor Tombe](#), an economist at the University of Calgary's School of Public Policy (where I am also a fellow), in only two American states – Michigan and Vermont – does trade with Canada exceed 10 per cent of the annual economic output. By comparison, Canada's provinces are all overwhelmingly dependent on the U.S. market for its contribution to their GDP: New Brunswick (50 per cent); Ontario (49 per cent); Manitoba (39 per cent); Saskatchewan (33 per cent); Alberta (31 per cent); Newfoundland and Labrador (29 per cent); Nova Scotia (14 per cent) and Prince Edward Island (13 per cent). This is why we need to diversify our trade and open new markets.

The NAFTA negotiations began a year ago ([August 2017](#)), although Trump continues to [threaten rescindment](#) of the agreement. We have made progress, but tough bargaining still needs to be done on rules of origin on autos, government procurement, the sunset clause and dispute settlement. In the meantime, uncertainty over NAFTA [hurts investor confidence](#).

The distractions of the approaching U.S. midterm elections and the Mexican transition from Enrique Peña Nieto's administration to that of Andrés Manuel López Obrador means any ratification won't happen until next year – the U.S. Trade Promotion Authority lays out the [congressional approval process](#) – although our negotiators can do useful work in the meantime.

Canada and Mexico need to stand together. We also need to double down on our outreach. A [majority of Americans](#) say free trade agreements have been good for the U.S. However, we need to point out to our American friends that North American trade is a proven win-win-win proposition.

Your travels as legislators over the summer to the various regional Council of State Governments conferences and regional forums – the Pacific NorthWest Economic Region and the Council of the Great Lakes Region – are important. Equally important are the premiers' travels to the regional governors' conferences. You need to remind Americans that Canada is the [first market for most states](#) and that Canadian companies operating in the U.S. employ more than [half a million](#) Americans.



In 2010, the premiers met with their counterparts at the National Governors' Association meeting in Washington, paving the way for the [reciprocity agreement](#) on government procurement. This avenue may be the means to break the impasse at the current NAFTA negotiations – a governors' and premiers' agreement on a national (or even regional) procurement deal(s) that gives more choices and thus gets best value for taxpayers' dollars.

I encourage you legislators to stay engaged with your counterparts in the U.S. and Mexico and to feed to the negotiators what you are hearing from your constituents, as it relates to their ability to trade. Practical examples of what aggravates trade and how we can improve the situation are vital knowledge for our negotiators.

We also need to stand together at home. The House of Commons' unanimous [resolution](#) (June 11) opposing the U.S. tariffs and supporting the retaliatory actions demonstrates the kind of united front that strengthens our negotiating hand.

A cautionary note: there is a tremendous amount of noise about the negotiations. While the NAFTA negotiations are remarkably public – front-page stuff, thanks in part to Trump's pre-dawn tweets – there is also a lot of misinformation out there and in those tweets. Some of it is by design and some of it is just the usual kind of fervent speculation that surrounds these types of negotiations. So, beware of noise.

Our trade relations with the U.S. go beyond NAFTA. There is a lot of good work taking place around regulatory co-operation and improvements to border management. Nor is there any shortage of good ideas on what needs to be done. Our cross-border trade organizations, including the North American Strategy for Competitiveness, the Canadian American Business Council, the Border Trade Alliance, et al., and business associations, including the Business Council of Canada, Canadian Chamber of Commerce and Canadian Manufacturers and Exporters provide regular and practical advice on what needs to be done.

Progressive Trade to Preserve Competitive Edge

We hope to make improvements and integrate standards on labour and the environment into the agreement to include labour mobility and the mutual recognition of accreditation. Then we can make maximum use of the talent pool that North America enjoys but that we need to harness, so that we remain the most competitive region in the world – the assessment of the [George W. Bush Institute](#) that tracks regional competitiveness.

This means provision for trade adjustment so that those displaced – by trade decisions or efficiency improvements in automation, robotics and artificial intelligence – are guaranteed the opportunity to improve their skills or have training in another area. The Federation of Canadian Municipalities underlined this in a [resolution](#) at their annual conference in Halifax this year.



In doing so, we have the opportunity to create, just as NAFTA did in its time, the new model for trade agreements – a realistic but progressive trade agreement that gives a helping hand to those who are displaced or lose out.

Trade Diversification

As Canadians are highly dependent on trade, we adjust to the current circumstances by renegotiating NAFTA while also embracing trade diversification. This was underlined in the recent cabinet shuffle with Minister of International Trade Jim Carr receiving a portfolio name change to become the [Minister of International Trade Diversification](#).

Canadian governments have negotiated [free trade agreements](#), both bilaterally (e.g., Chile, Korea, Jordan) and regionally (CETA, CPTPP) that now give freer trade access to [50 countries](#).

In the spaghetti bowl of trade diversification deals currently on the Canadian menu, associate membership in the Pacific Alliance should be an easy choice. The alliance's members – Chile, Colombia, Mexico and Peru – are business-minded and they embrace the rules-based, democratic order. With more than 221 million consumers, the combined GDP of the “Pacific pumas” is equivalent to the world's sixth largest economy. The economic health of a lot of Canadian firms, especially in resources and finance, are tied up in the alliance's economic wellbeing.

The Harper government developed a good [global market strategy](#). Now we need to invest more in the Canadian Trade Commissioner Service to take advantage of the market opportunities we have negotiated. In co-operation with provincial and municipal governments this means matchmaking foreign firms with Canadian business and vice versa. Australia's Austrade has a budget [almost twice](#) that of the Trade Commissioner Service. We need to invest more.

We need to open new markets and expand our existing base. Trade and investment promotion will always be the main drivers, but we should broaden our marketing scope to include tourism – a money generator and a precursor to attracting international students to our colleges and universities.

In the short term, [international students](#) make our universities more cosmopolitan and oblige our learning institutions to raise their game. In the longer term, these students are friends of Canada who open doors for us in their own countries.

Our trade and investment marketing should also include targeting immigrants who bring new talent and ideas to a country that, 151 years later, is still engaged in nation-building.



Sustaining the Rules-Based Global Operating System

There is diminishing interest around the world in the traditional liberal international order with a concomitant drop in support for democratic governance. Clawing back what authoritarian leaders around the world undermine daily is the challenge for constructive powers.

What constructive powers cannot do is sit on the fence or play it safe. Canada, in league with constructive powers who value representative government, human rights and freer trade, needs to step up and reassert our interests in sustaining and preserving the rules-based liberal international system.

This means re-investing in our shared institutions – the UN, World Bank and IMF – and, especially in reform of the WTO, working with [like-minded partners](#) to address legitimate concerns about industrial subsidies, state-owned enterprises and protection of intellectual property.

It also means supporting each other and sharing best practices to protect our democratic institutions – the sanctity of our election process – and the rule of law through our independent courts and legal systems

Final Observations

The Canadian brand is solid. We need to exploit it. Canadian services in banking, insurance and engineering are efficient and trusted. We are global leaders in medical and energy innovation and digital technology.

Canada is in the top 15 of the [Good Country Index](#), defined by what each nation contributes to humanity's common good. The OECD [Better Life Index](#) accords us a similar high ranking. Always a trading nation, we are becoming a nation of traders. But we need to commit to continuous improvement through, for example, re-investment in our trade commissioner service.

Our successful integration into North American markets proves that Canadian business can successfully compete. We are meeting the Trump challenge through our outreach and marketing into the U.S. This helps us hone marketing skills that we need to apply globally.

We also need to work in tandem with our partners: hemispheric, transatlantic and transpacific, and through forums like the G7, G20 and APEC. It means finding our niches. It means acting in concert with like-minded constructive powers to support, sustain and reform the rules-based global operating system. It requires us to strengthen our diplomatic and defence capabilities.

In conclusion, the more protectionist Trump's "America First" administration becomes, the greater the requirement for Canada and like-minded nations to double down on constructive multilateralism, collective security and freer trade.

► About the Author

Colin Robertson is Vice-President and Fellow at the Canadian Global Affairs Institute, a member of the NAFTA Advisory Council to the Deputy Minister of International Trade, and a former Canadian diplomat and member of the teams that negotiated the Canada-U.S. FTA and NAFTA. He is also an Executive Fellow at the University of Calgary's School of Public Policy, a Distinguished Senior Fellow at the Norman Paterson School of International Affairs at Carleton University, a member of the advisory councils of the Conference of Defence Associations Institute and the North American Research Partnership and participant in the North American Forum. He is a past president of the National Capital Branch of the Canadian International Council. He is an honorary Captain (Royal Canadian Navy) assigned to the Strategic Communications Directorate. He writes a regular column on international affairs for the *Globe and Mail* and he is a regular contributor to other media.

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The Institute was created to bridge the gap between what Canadians need to know about Canadian international activities and what they do know. Historically Canadians have tended to look abroad out of a search for markets because Canada depends heavily on foreign trade. In the modern post-Cold War world, however, global security and stability have become the bedrocks of global commerce and the free movement of people, goods and ideas across international boundaries. Canada has striven to open the world since the 1930s and was a driving factor behind the adoption of the main structures which underpin globalization such as the International Monetary Fund, the World Bank, the World Trade Organization and emerging free trade networks connecting dozens of international economies. The Canadian Global Affairs Institute recognizes Canada's contribution to a globalized world and aims to inform Canadians about Canada's role in that process and the connection between globalization and security.

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