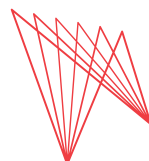


WESTERN CANADA'S TRADE AGENDA

TPP11 and beyond



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Asia Pacific Foundation of Canada and
Canada West Foundation Roundtable Summary

June 1, 2017 | Vancouver, B.C.

BACKGROUND

Canada is a trading nation and trade agreements are vital to its economic survival. The North American Free Trade Agreement (NAFTA), especially with the U.S., is almost exclusively about maintaining, not growing, existing trade. For growth, Canada must look beyond the U.S. It cannot afford to let new trade opportunities, particularly in lucrative Asian markets, pass. Canada's reticence on the signed, but unratified, Trans-Pacific Partnership (TPP) speaks volumes about the gap between this reality and our trade policy.

On June 1, 2017, the Canada West Foundation and the Asia Pacific Foundation of Canada brought together leading voices on trade to forge a list of trade priorities for western Canada and shape the country's national trade agenda.* At the centre of the discussion were the potential gains for Canada in the TPP. The roundtable was driven by a recent Canada West Foundation report based on economic modelling by Dan Ciuriak, Jianliang Xiao and Ali Dadkhah, *The Art of the Trade Deal: Quantifying the benefits of a TPP without the United States*. The report demonstrated that a TPP agreement without the U.S. (a TPP11) would greatly benefit Canada. Western Canada would do particularly well under the deal. The lack of public awareness of this opportunity and the absence of advocacy for a TPP11 in western Canada and Ottawa made the discussions more urgent.

The roundtable was split into **i)** a presentation and discussion of the benefits and potential problems with a TPP11 agreement, and **ii)** where a TPP11 should fit into a list of Canadian trade priorities.

* The roundtable was held under the Chatham House Rule for attendees but not for presenters. This report is a synthesis of the consensus of the room. While it attempts to capture the diversity of opinion and opposing views, it is not and should not be read as a transcript or complete summation of discussions. For example, it is not the position of Canada West Foundation that Canada is ready to open negotiations with China.

SUMMARY

The consensus from the discussion was that:

01

The TPP11 should be a priority for Canada, alongside both the renegotiation of NAFTA and opening negotiations with China. Together, these negotiations should be the focus of government.

02

Since the TPP11 is already negotiated, there is a strong argument for the government to prioritize political capital on getting it ratified first, then focus on longer-term objectives like China.

03

There is a vacuum of TPP11 communication and advocacy from the government and an associated danger that the opportunities for Canada and the West could be lost if the case is not made forcefully to the Canadian public.

04

Ratification of the TPP11 by Mexico and Canada would enhance, not hinder, each country's leverage in NAFTA negotiations. The TPP11 gives Canada and Mexico alternatives to ease their reliance on U.S. trade. Lack of U.S. participation in the TPP puts pressure on U.S. negotiators in the NAFTA talks.

05

Beyond the TPP11, government needs to articulate that Asia is its priority when it comes to growing its trade agenda.

CONTEXT

The roundtable opened with welcome and introductions by Colleen Collins, Vice-President of the Canada West Foundation and Eva Busza, Vice-President Research and Programs at the Asia Pacific Foundation of Canada.

Carlo Dade, Director of the Trade & Investment Centre at the Canada West Foundation, reviewed the current trade agenda in Canada. Although the West accounts for more than 40 per cent of Canada's trade, it has arguably done the worst under Canada's current trade agenda. With growing demand and rapidly rising middle class populations, Asia should be the natural priority for Canadian trade policy. Yet, the evidence in recently signed agreements shows the opposite. For example, Canada has three times as many trade agreements in Central America – a region of small markets and small middle classes that are not significant consumers of products from the West – as in all of Asia. The new Canada-EU agreement also does not match Asia's export growth potential for western Canada. The TPP, on the other hand, includes Japan (the fourth largest economy in the world) as well as Malaysia and Vietnam, each with booming economies and rapidly growing middle classes. It was seen as key for Canada to catch up in Asia. Instead of the U.S. withdrawal killing the agreement, the TPP is very much alive. The economic modelling presented shows that it is a better deal for Canada without the U.S. as part of the pact, and an even better deal for Canadian agriculture and agri-food sectors.

Dan Ciuriak, co-author and lead on the economic modelling exercise in *The Art of the Trade Deal*, presented key findings from the report. In Ciuriak's model, the TPP11 changes to laws and regulations were scored against established indices of goods and services trade. The modelling removed bilateral agreements with the U.S. from an earlier study of the original TPP. The results show that Canada does well in terms of goods and services, with more gains in goods than services – especially in sales of beef and vegetables. They are not huge gains, but nevertheless, gains. Dairy is the only negatively impacted sector, but those results are the same as in the original TPP. What changed is the return. Canada makes no additional concessions on dairy in the TPP11 but receives substantially more benefits overall, essentially taking market share from the absent U.S. As such, Ciuriak also noted that the TPP11 results in a big change for the United States; it goes from having by far the biggest gain under the original agreement to a major loss under an agreement to which it is not party. Looking at trade deflection, countries in the Americas do better on trade in TPP11, because market share in the U.S. is not eroded by Japan, allowing Canada to do better on exports in the Asia-Pacific.

Ciuriak also voiced concern on the inability to model the knowledge-based economy, which means that tracking issues related to asset-value impacts is difficult. Ciuriak felt it would be better for the TPP11 to go ahead as a traditional trade agreement, putting the chapters on intellectual property (IP) on hold. This would allow Canada and other countries to grab market share from the U.S. in goods and trades and avoid negative impacts of IP and copyright liberalization in the current agreement. Countries could use the time before the U.S. rejoins the TPP to understand the potential impacts of changes occasioned by these new rules, and prepare.

Deborah Elms, executive director of the Singapore-based Asian Trade Centre, noted that the service and investment benefits in the modelling exercise seemed understated. The TPP11 is transformative on services and investment. The TPP is a major improvement over previous trade agreements, including those underway at the World Trade Organization (WTO) on services. It is not business as usual – it liberalizes *every* services and investment sector. This is unprecedented, especially in Asia. Another important distinction is that while the WTO agreements are aspirational (“Countries should make every effort to...”), the TPP is prescriptive (“Countries shall...”). A typical Asian agreement on service liberalizes small and specific opportunities, e.g., “You can do food delivery by bicycle,” or “You can be a foreign railway cleaning service, but you cannot have any other kind of foreign services.”

TPP11 COUNTRIES ARE EXPECTED TO DECIDE AT THE NOVEMBER 2017 APEC MEETING WHETHER TO PROCEED WITH A TPP11 AND CANADA NEEDS TO TAKE LEADERSHIP IN LIEU OF THE U.S. — Deborah Elms

Elms noted that the TPP11 is also transformative for goods – nearly all goods tariffs go to zero per cent, including some that have never been dropped before (except cream cheese into Japan, which stays at 24.5 per cent). For trade in goods, she noted that the TPP contains what are, especially for Asia, remarkable improvements, such as binding requirements that perishable goods take no longer than six hours to clear customs and 48 hours on everything else. She also noted, importantly and in counterpoint to criticisms of the agreement, that the larger benefits of an interlocking agreement are more beneficial than when adding up benefits chapter by chapter. This is important not just for the 11 TPP countries, but also non-TPP countries. Countries that are outside the agreement are going to have a harder time competing against those in the agreement. Elms concluded by noting that the TPP11 countries are expected to decide at the November 2017 Asia-Pacific Economic Cooperation (APEC) meeting whether to proceed with a TPP11 and Canada needs to take leadership in lieu of the U.S.

DISCUSSION

Discussion questions put to the participants included:

- What should the priorities be for a trade agenda from a western perspective, and how do we avoid another “Honduras” situation? (I.e., where the government in Ottawa devotes scarce trade negotiation resources for agreements that do not benefit the West.)
- Does the lack of a definitive public statement and public advocacy on the TPP11 from the federal government attest to a lack of political will to move forward?
- With new evidence showing the benefits of TPP11 via economic modelling, what concrete steps should be taken next? Should the TPP be a priority? If not, what other trade agreements might be a priority for Canada’s trade agenda (NAFTA, China, Association of Southeast Asian Nations [ASEAN])?

Highlights

Ratifying/re-opening the TPP

- A potential reason for the federal government’s reticence on the TPP11 appears to be its preoccupation with NAFTA negotiations – a sense that the TPP is a “Harper agreement,” and embracing it is offering vindication to the former government.
 - The government listens to industry and we have not seen the Canadian private sector energized around a TPP11. This has to change.
 - Regarding whether potential negative impacts from new IP and copyright regimes should give pause to proceeding, there were suggestions that Canada should either try to renegotiate those parts of the agreement or try to have them put on hold. The agreement is a tenuous balance of compromise between members that was extraordinarily difficult to achieve and could be impossible to maintain if it is reopened.
 - It was noted that the investor-state dispute mechanisms in the agreement, a point of great public contention and political peril, would, if possible, be better replaced with investor-state dispute settlement provisions in the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), which were unanimously felt to be better than those in the TPP. But, if this is not possible, then the general, but not unanimous, consensus was that Canada should proceed with ratification of the TPP as is.
- A major selling point for the TPP11 is that it is done, a bird in hand so to speak. NAFTA renegotiations are an uncertain result. We have an opening with China that we haven’t had before, but haven’t yet started to explore, and will again produce an unknown result. With the TPP11, we have a done deal, a known deal, and one that benefits Canada.
 - We need to be cautious about the capacity of Asia to carry out norms and build institutional capacity to carry out those norms, that is, to carry through with its commitments. One way to think about this is that the TPP is part of an evolving institutionalizing process, keeping in mind that there is always a lag between institutional innovation and behaviour.

Western Canada’s trade agenda

- In NAFTA, pay attention to the U.S., but don’t abandon Mexico.
- For Canada, Japan is a big market. We have not paid sufficient attention to Asia generally. We need to return our focus more towards Asia and trade agreements. We need to lock the TPP down by November, which could – and should – be easy to do.
- A Canada–ASEAN free trade agreement can be put on the backburner, as it would take too much time and resources to complete negotiations in the upcoming years. In addition, it would not be a high-standard agreement compared to TPP11.
- China should remain a priority. This is a unique moment, as the U.S. has abrogated its international position. A power vacuum exists, and China is stepping into it. President Xi Jinping gave us a sample of that at Davos when he made a robust case for China’s leadership role and presented his country as a potential champion of globalization and free trade. China is not remotely onside with TPP standards. It should look at the TPP as something that could advance its own geopolitical agenda. There is a window of roughly two years to begin trade initiatives with China – a huge, and rare, opportunity that Canada should seize. This was the consensus of the group but some participants like the Canada West Foundation, felt that China as a priority is not a foregone conclusion.

TRADE AGREEMENTS*

CANADA'S TRADE NEGOTIATIONS SHOW
WE ARE FALLING BEHIND IN ASIA

IN EFFECT	UNDER NEGOTIATIONS OR NOT RATIFIED	RECENT CONSULTATIONS** NOT UNDER NEGOTIATIONS (last 5 yrs)
Chile	CARICOM <i>(Caribbean community)</i>	China
Colombia	Canada-Guatemala, Nicaragua and El Salvador Trade Agreement	Mercosur <i>(Argentina, Brazil, Paraguay, Uruguay)</i>
Costa Rica	Dominican Republic	Pacific Alliance <i>(Chile, Colombia, Mexico, Peru)</i>
European Free Trade Agreement (EFTA)	India	
European Union (EU)	Japan	
Honduras	Morocco	
Israel	NAFTA	
Jordan	Singapore	
Korea	TPP11 <i>(second round post-signing)</i>	
North America <i>(U.S. and Mexico)</i>	Trans-Pacific Partnership (TPP)	
Panama		
Peru		
Ukraine		
U.S.		
Asia: 1	Asia: 5	Asia: 1
Total: 14	Total: 10	Total: 3

Source: OAS Foreign Trade Information System http://www.sice.oas.org/ctyindex/CAN/CANAgreements_e.asp, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/consultations/fta-ale.aspx?lang=eng>

* Trade agreements, not investment protection and WTO-related agreements

** Countries where the Canadian government has gone beyond exploratory talks and launched domestic consultations

THE ART *of the* TRADE DEAL

Quantifying the benefits of a TPP without the United States

EXECUTIVE SUMMARY

The United States' withdrawal from the Trans-Pacific Partnership (TPP) agreement supposedly signalled the demise of the pact – and with it any hope for Canada to close the trade agreement gap with its major Asia-Pacific competitors anytime soon.

But as with Mark Twain, the reports of its death have been greatly exaggerated.

Throughout early 2017, the remaining 11 TPP signatories (TPP11) have forged on with ratification of the deal in their own countries. Rather than killing the agreement, the withdrawal by the U.S. – and the accompanying “America First” trade rhetoric from the Trump administration – has alarmed and, in some cases, motivated, the remaining signatories. In a sudden and sharp shift of position for many, the remaining TPP countries are now focused on how to proceed with their own trade pact without the U.S.

The case to move ahead on a TPP11 has largely been a political response to the Trump administration's intent to replace inclusive multilateral agreements with one-on-one negotiations on terms essentially dictated by, not negotiated with, Washington, D.C. Opposition to this protectionist U.S. agenda makes a compelling political argument. However, a quantifiable case for the remaining 11 countries to inform discussions on whether to press on with the TPP minus the U.S. has been noticeably absent from the discussion.¹

This report begins to fill that gap. Our modelling and analysis shows how Canada and other TPP signatories would fare under a TPP11; what the U.S. stands to lose; and, how the agreement would affect different sectors of the economy, including how changes in one sector will impact other sectors. The findings provide quantitative evidence to each country as it decides whether to forge ahead on the pact without the U.S.

The evidence, in turn, raises new potential outcomes that must be considered either prior to ratification or in the future in the context of implementation and possible re-entry of the U.S. into the pact. Is the endgame of a TPP11 solely its economic benefits, primarily in trade in goods and services? How should the eleven TPP countries deal with issues on which U.S. policy is shifting? Should potential losses for the U.S. from opting out be used to try and bring the Americans back to the TPP table to regain the additional benefits for all

(and avoid aggressive bilateral talks)? If so, what changes, if any, should be made to the pact to either facilitate the Americans' return to the table or, on the other hand, to try and extract concessions from them as a price for re-entry?

These questions will be dealt with in a subsequent report. But their answers start with understanding the economic impacts of a TPP11.

Major findings from TPP11 modelling

FOR ALL TPP11 COUNTRIES

THE 11 REMAINING SIGNATORIES ARE BETTER OFF WITH A TPP11 THAN WITHOUT.

The economic analysis demonstrates that the overall value of benefits would be lower due to the absence of the U.S. However, each of the 11 parties would still benefit by participating. Specifically, at the regional level, a TPP11 would:

- **Generate an increase of 2.43% in exports among TPP11 partners.** This is 40% of what would have occurred under TPP12, or C\$22.7 billion in increased exports at 2017 prices for TPP11 compared to C\$55.6 billion for TPP12.
- **Expand total exports of TPP11 parties** to the world by 0.23% (about C\$16 billion at 2017 prices) due to businesses outside the bloc moving production to a TPP11 country to take advantage of the agreement. This movement of production could especially benefit Mexico and Canada if U.S. firms decide to relocate to take advantage of Canadian and Mexican access to TPP11 markets.
- **Raise the real GDP of the TPP11 bloc** by about 0.074% and generate economic welfare benefits of about C\$22 billion by 2035. With the U.S. gone, these gains are obviously smaller in absolute terms than under TPP12, but what's important, are about the same in percentage terms.

FOR CANADA

- Canada stands to benefit in TPP11 compared to TPP12 more than any other country in the group, save Mexico. Canada's welfare gains would improve to C\$3.4 billion under the TPP11, compared to C\$2.8 billion in TPP12. Real GDP gain improves to 0.082% from 0.068%.

¹ An early look at modelling impacts is provided in Kawasaki (2017)

- A TPP11 would actually be better than the original agreement for Canadian agriculture and agri-food, because this sector would no longer compete with the U.S. in TPP11 markets. Beef, in particular, would benefit from access to the Japanese market without having to share with the Americans. Fruit and vegetable exports, processed food products, and pork and poultry would likewise do well. Canola would continue to see a significant change in the composition of exports from unprocessed oilseeds to crude and refined canola oil, due to the elimination of Japan's tariff escalation policy in the oilseed sector.
- The only Canadian sector with a significant negative impact relative to the pre-TPP baseline would be dairy, which would face increased imports under Canada's concession – in both TPP12 or 11. Because the main global dairy producer, New Zealand, is geographically distant from Canada, the U.S. would have been more important competition to Canada in terms of fluid milk. Without the U.S., TPP11 may mean less pressure on fluid milk. But generally under TPP11 there may still be a dampening of prices from competitive dairy products from other TPP countries, a reduction of Canadian supply, and a corresponding higher level of consolidation, particularly winnowing out more higher-cost producers than is already the case.
- Canadian textiles and apparel – another sensitive sector – would see only a moderate reduction in total shipments, despite a strong surge of imports from TPP11 partners (again, this is unchanged from TPP12).
- The impact on the automotive sector is neutral in the new modelling results, but much would depend on how a TPP11 would proceed on the rules of origin (ROOs), given the central role of U.S.-based producers in TPP automotive supply chains.

FOR OTHER TPP11 COUNTRIES

- A TPP11 would improve upon TPP12 for signatories in the Americas (Mexico, Canada, Peru and Chile), as these countries would avoid erosion of existing preferences in the U.S. market (assuming existing bilateral agreements remain unchanged). These countries would also benefit from not having to compete with U.S. suppliers, as they would have had to under TPP12.
- A TPP11 would improve upon TPP12 for Singapore, which similarly would avoid loss to U.S. competition of its existing preferential position in Asian markets.
- Vietnam and Japan, while they would still benefit from TPP11, would also see the biggest reduction of gains, because they stood to gain the most in the U.S. market under TPP12.

FOR SPECIFIC SECTORS

- Notwithstanding the withdrawal of the U.S., the automotive sector would make the largest intra-TPP export gains of all the goods sectors under TPP11.
- Other sectors that would benefit from increased exports under TPP11 include machinery and equipment (C\$2.3 billion), leather products (C\$2.1 billion), beef (C\$1.2 billion), processed foods (C\$946 million) and fruit and vegetables (C\$343 million).
- The TPP11 would wash out the large export gains that Vietnam stood to make in textiles and apparel in the U.S. market under TPP12. Nonetheless, textiles and apparel (C\$4.2 billion) see the largest gains in intra-TPP exports after automotive products.
- Finally, service exports get little wind in the sails from TPP11. Business services exports make the most notable gain, expanding by C\$345 million, but this falls far short of what TPP12 would likely generate.

FOR THE UNITED STATES

- A projected gain in exports to TPP countries under a TPP12 of C\$17.3 billion would turn into a C\$4.1 billion loss of exports to TPP countries under a TPP11 agreement.
- American losses from TPP11 would stem from its exclusion from the supply chain benefits of a multilateral agreement. Under TPP11, countries would benefit from essentially one set of rules for sourcing and producing goods and services in or from all 11 countries. If a company in Japan that produces goods with inputs from Malaysia and Vietnam wanted to sell to Canada, for example, it could enter Canada under the favourable conditions of TPP11 since all the countries are members of TPP11.
- A bilateral agreement between the U.S. and Japan, on the other hand, would apply only to goods made only or mostly in Japan and the U.S. For a Japanese company that has supply and production chains in Vietnam and Malaysia, this could pose a major problem. Though a bilateral deal with the U.S. would bring a bigger market for some firms, for other companies with supply and production chains in neighbouring countries, this might not be as advantageous.



THE ART OF THE TRADE DEAL

Quantifying the benefits of a TPP without the United States

Carlo Dade & Dan Ciuriak
with Ali Dadkhah & Jingliang Xiao

CANADA WEST FOUNDATION

The Canada West Foundation focuses on the policies that shape the West, and by extension, Canada. Through our evidence-based research and commentary, we provide practical solutions to tough public policy challenges facing the West, and Canada as a whole, at home and on the global stage.

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