



Canada Joins the Trans-Pacific Partnership

Canada is now actively seeking membership in what some expect will become the world's most exciting modern trade agreement, the Trans-Pacific Partnership (TPP). This is good news for British Columbia. As our country's Pacific province, we have more to gain than most as Canada steps up its engagement with the Asia-Pacific region. In time, the benefits of the TPP could include increased exports to Pacific Rim markets, a boost to the local tourism sector, and the development of stronger business-to-business and people-to-people connections between BC and other Asia-Pacific economies.

The TPP is an innovative attempt to advance the goal of trade liberalization among nations bordering the Pacific Ocean. Rather than trying to broker an agreement with as many countries as possible, the TPP started with a small group of countries and a plan to attract more over time. In theory, the bigger the partnership gets, the more appealing it will be for others to join. It is hoped that the TPP will consolidate the nearly 50 smaller trade accords that now exist around the Pacific, perhaps paving the way for a comprehensive Asia-Pacific trade agreement by the end of the decade.

This report provides some background on the proposed TPP and the reasons why Canada stands to benefit from being part of

it. Some of the issues that TPP members are grappling with are discussed, and we comment briefly on the implications of a successful agreement for British Columbia.

A new kind of trade deal

Efforts to secure global-scale trade agreements are failing, with the World Trade Organization's long-stalled Doha negotiations being a prime example. In the absence of global deals, many nations have been pursuing bilateral and regional accords to reduce barriers and facilitate international commerce.¹ The TPP started off in just this way in the early 2000s, when

the first four members – Brunei, New Zealand, Singapore and Chile – began discussions.

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welcomed the next five: Australia, Malaysia, Peru, Vietnam and – most significantly – the United States. Then, in June 2012, Canada and Mexico were invited to join (their membership is subject to approval by the other TPP partners). Thus, 11 nations are expected to soon be involved in the TPP talks. Japan has also expressed an interest and may be added within the next year. It

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¹ The World Trade Organization counts 319 bilateral/regional trade agreements in place worldwide. See www.wto.org.

should be noted that two other big Pacific economies – China and South Korea – are not yet participating, although many experts believe they are likely to join if the current TPP talks produce an actual agreement.

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The list of TPP partners represents a significant economic grouping. Including Canada and Mexico, the TPP members are home to 660 million people and generate more than \$20 trillion of economic activity (Table 1).² Canada now does about \$600 billion worth of merchandise trade (imports and exports) with the TPP nations (albeit the lion's share of this is with the US); table 2 provides further details. The prospect of reaching a trade agreement that encompasses much of the Asia-Pacific region has substantial upside potential for Canada. Overall, Asia³ collectively is home to 40% the world's population, and by the end of the decade it will account for half of global GDP. The TPP would strengthen and multiply economic, intergovernmental and business-to-business ties between Asia and the Americas.

² Claude Barfield, "A Big Deal: Canada and Mexico Join the Pacific Trade Pact," VoxEU economic research web site (August 1, 2012); www.voxeu.org

³ Including Australia and New Zealand.

TPP Countries	GDP in USD – billions (2010)	Population in millions (2010)	GDP per capita (PPP) (2010)
Australia	\$1,237	22.2	\$39,764
Brunei	\$12	0.4	\$48,333
Chile	\$203	17.2	\$15,040
Malaysia	\$238	28.3	\$14,744
Mexico	\$1,605	111.5	\$14,400
New Zealand	\$141	4.4	\$27,130
Peru	\$154	29.6	\$9,358
Singapore	\$223	5.2	\$56,694
US	\$14,527	310	\$46,860
Viet Nam	\$104	88.3	\$3,143

Some estimates suggest a formal TPP agreement among the current participants could yield an increase in annual global income in the vicinity of \$300 billion. If China, South Korea and other countries that are not part of the current negotiations eventually join in, the potential world-wide economic gains could rise to almost \$2 trillion per year.⁴

Some challenges

The TPP talks are taking place behind closed doors, as is typical with most areas of international diplomacy, so details of precisely what is being negotiated are not available. We can, however, make reasonable guesses about what various TPP members will try to get from the proposed agreement.

⁴ Peterson Institute for International Economics, "The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications," Policy Brief PB 12-16 (June 2012).

Table 2
Canada's Merchandise Trade
with TPP Members, 2011
 (millions of dollars, rounded)

TPP Countries	Exports ¹	Imports
Australia	391	1,278
Brunei	4	8
Chile	818	1,910
Malaysia	762	2,138
New Zealand	381	550
Peru	518	4,402
Singapore	804	1,555
US	330,090	220,879
Viet Nam	335	1,332
Mexico ²	5,476	24,573
Japan ³	10,671	13,056

¹ Includes re-exports (imported goods subject to further minor processing in Canada)

² Mexico's membership in the TPP, like Canada's, is still to be formally approved by other participants.

³ Japan has expressed a strong interest in joining the TPP but is not yet a member.

Source: Statistics Canada.

Developing or “emerging” Asian countries seek greater and more assured access to developed country markets for a wide range of manufactured goods, from consumer electronics through furniture, toys, clothing and textiles. Countries with more advanced economies, such as the US and Canada, will want to make sure that intellectual property, whether in the form of technology or services, is protected from theft and other illegal use in emerging Asian and Latin American economies, and that rules are in place to allow foreign service providers – such as financial institutions and professional services firms – to establish operations and do business in TPP members' markets on a non-discriminatory basis. As big commodity producers, Australia, New Zealand and Canada share

an interest in better access to TPP markets for primary and processed resource-based goods. All TPP participants will be hoping to gain from improved investment conditions and a common set of rules governing foreign direct investment.

How the TPP talks will evolve, and whether other nations join the 11 who are now expected to be at the table, are unanswered questions. In theory, the TPP partners should be open to accepting new members as the talks progress. How this may affect the process is unclear. What we do know is that large trade deals have to contend with a trade-off: the more nations are involved, the bigger is the eventual result and the greater the ultimate economic benefits; however, more participants also tend to mean more complex and lengthier negotiations.

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accept whatever agreement(s) the initial participants have managed to conclude. Indeed Canada, as a comparative latecomer to the process, to some extent is in this situation now, as the existing TPP members have made it clear that they don't want to revisit issues that were resolved in previous rounds of talks.

Another challenge comes from the diverse range of subjects the TPP will address. In addition to tariffs, other types of trade barriers, setting principles for foreign investment, and harmonizing regulations, the TPP also aims to establish rules on such matters as labour standards, environmental protection, market access for foreign service providers, the operation and treatment of state-owned enterprises, and the movement of temporary foreign workers. The list of items to be negotiated goes beyond the scope of most existing trade accords, such as NAFTA. It is unclear how such "behind the border"⁵ trade-related issues will be tackled within the TPP framework, especially given that – if all goes to plan – new countries are expected to be joining in throughout the process.

Finally, it is important to recognize that, beyond the questions of trade and investment rules and market access issues, there is a geopolitical dimension to the TPP process. As one commentator recently observed:

"...the TPP is about more than trade. It is tied to the politics of how Canada, the United States and others will manage future economic relations with China.

⁵ Barfield, "A Big Deal," op. cit.

The momentum for TPP may be generated by Asia-Pacific countries' fear of the regional dominance of China, and the US desire to establish the economic underpinning for long-term military and security commitments in the Asia-Pacific region."⁶

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Canada and the TPP

An important feature of Canada's existing trade structure is that our main commercial partners and export markets (the US, Japan and Europe) all tend to be relatively slow-growing economies. This helps to explain why Canada's share of world exports fell by more than any other G20 country save the UK between 2000 and 2010.⁷ Many of the world's fastest-growing economies are in Asia, but today (apart from Japan) Asian markets receive only a small percentage of Canadian exports. This suggests there is both a need and an opportunity for Canada to develop new offshore markets for its goods and services.

⁶ Laura Dawson, "Can Canada Join the Trans-Pacific Partnership? Why Just Wanting it is Not Enough," C.D. Howe Institute Commentary, Number 340 (February 2012), p. 5.

⁷ Ian Lee, "Canada's Trade Opportunities at Risk From Supply Management," Macdonald-Laurier Institute (June 2012).

There is also a defensive motivation for Canada to be in the TPP. If the US were the only North American member of the bloc, it would enjoy a significant competitive advantage, helping it to attract investments from companies that want to operate in North America and also do business in the wider Asia-Pacific region. Also, the benefits Canada obtains from having tariff-free access to the US under NAFTA are eroded when the Americans enter into bilateral and regional trade agreements with other nations, particularly if Canada is not also a party to such accords.

How much could Canada gain economically from a TPP agreement?

The answer depends on how many countries end up signing on to a prospective deal.

One could argue that joining the TPP is superfluous, because Canada already has trade agreements with the US and Mexico under NAFTA, and also with Chile and Peru through bilateral trade pacts. But the TPP is expected to deepen and further liberalize trade between NAFTA members by covering issues that the original scheme didn't comprehensively address, such as financial services, telecommunications, intellectual property and government procurement. Moreover, joining the TPP is an important step in the longer-term strategy to expand and strengthen Canada's trade and broader commercial relationships with Asian countries that are not yet TPP members, such as Japan, China, South Korea and the Philippines.

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A few controversial issues

Apart from questions around market access for natural resources, manufactured goods, and services, TPP participants will confront a number of other difficult issues. For Canada, the most sensitive relate to the country's longstanding regimes to protect the domestic dairy, poultry and egg production industries through "supply management." The Canadian government and the participating provinces have shielded these parts of the agriculture sector from both foreign and domestic competition, by using licensing to manage the number of producers, quotas to control their output, and very high tariffs to limit their exposure to foreign competition. These policies guarantee generous and stable incomes for producers, but the cost is passed on to Canadian food-processors and

⁸ Peterson Institute for International Economics, "The Trans-Pacific Partnership and Asia-Pacific Integration," op. cit.

consumers, who must pay higher prices than their counterparts in other countries.⁹ Supply management has also tarnished Canada's reputation as a proponent of trade liberalization. The sub-sectors covered by supply management amount to 19-20 percent of annual revenues for primary agriculture in Canada.¹⁰ Most remaining parts of the Canadian agriculture sector operate in a more competitive and open market context, and many producers in these sub-sectors support liberalized trade rules and would welcome better access to TPP markets.

A few TPP members vetoed Canada's inclusion as long as Ottawa remained wedded to supply management for dairy, egg and poultry products, and refused to consider modifying its market-restricting policies in this area. Both Australia and New Zealand went through painful processes to reform their agricultural-support programs, and understandably they believe Canada should do the same. The US has also scaled back its (still significant) farm-support programs in recent years, and Washington is allied with other TPP countries in calling on Canada to reduce trade barriers and accept more competition in the sub-sectors covered by supply management schemes.¹¹ By deciding to sign

on to the TPP earlier this year, the Canadian government effectively agreed to put existing supply management regimes "on the table" as part of the overall negotiations.

This is not the only thorny issue that might arise in the TPP talks. For instance, unlike NAFTA, the TPP likely will address the foreign investment rules and other regulatory arrangements governing the telecommunications industry. In Canada, this sector is protected from foreign competition through rules concerning the degree of permitted foreign ownership. These investment restrictions have been eroded in recent years, however, as new entrants have gained a foothold in the Canadian market. The TPP negotiations might serve to accelerate this trend.

There are certainly signs that BC is adjusting to Asia's growing role in the global economy.

The United States, in particular, is seeking better intellectual property rights (IPR) protection in the TPP, notably from the less developed countries. Canada has for some time been under pressure to modernize its own intellectual property laws and policies to bring them into alignment with advanced country norms, most recently during negotiations to conclude a comprehensive Canada-European Union economic and trade agreement. Some modifications have already been made to Canadian IP legislation (e.g., copyright laws). It is unlikely the TPP will drive

⁹ For background, see Macdonald Laurier Institute, Milking the System: How Agricultural Supply Management Impedes Trade Opportunities and Egregiously Transfers Income (June 2012); and William Robson and Colin Busby, "Freeing Up Food: The Ongoing Cost, and Potential Reform, of Supply Management," C.D. Howe Institute Background, Number 218 (April 2010).

¹⁰ Ibid.

¹¹ Dawson, "Can Canada Join the Trans-Pacific Partnership?" op. cit.

further changes in Canadian IP policies, beyond what the country is on track to accept as part of the EU talks.

BC's interests in the TPP

BC has historically underperformed the rest of Canada as a trading province. Between 2001 and 2010, exports of goods and services to other countries and provinces made up, on average, 57 percent of Canada's GDP, but only 43 percent of BC's – a 14-point difference. However, there is reason to believe that, as Canada's overall trade and commercial focus shifts towards the Pacific Rim, BC's export numbers will improve.

There are certainly signs that BC is adjusting to Asia's growing role in the global economy. In 2011, BC's exports to Asian countries surpassed exports to the US for the first time (\$14.1 billion compared to \$14 billion). Ten years earlier, BC exports to the US were worth 3½ times more than exports shipped across the Pacific.¹²

In the last decade, energy products have become BC's most important export commodities. In 2011, BC's number one commodity export was coal, which was worth more than the combined value of its next two biggest export commodities, softwood lumber and pulp and paper. Most of the province's coal is shipped to Asian buyers.¹³ To date, natural resources do not appear to have been among the key topic

¹² It should be noted that the majority of BC's trade with Asia takes place with countries that are not yet full TPP participants (Japan, China and South Korea).

¹³ Most of the BC coal that is shipped abroad is used in steel manufacturing in Asia.

areas in the TPP discussions. BC should press the Canadian government to put a high priority on market access and other trade-related issues which impinge on the ability of Western Canadian resource producers to sell into and do business in TPP markets.

It is also worth noting that BC is uniquely positioned to benefit from the emergence of a more Asian-centered world, not only geographically but also culturally.

Another area that's important to BC and has been explicitly targeted in the TPP discussions is small and medium-sized businesses. A stated TPP objective is to ensure that small and medium-sized enterprises are able to make use of the trade agreement to expand their international business activities and presence. If successful, this could be a significant opportunity for BC, which has Canada's highest proportion of small businesses.

Smaller firms in general are less likely to export or to engage in international business than larger companies, which may help to account for BC's somewhat uninspiring export performance. In 2009 only 1.4 percent of BC small businesses were involved in exporting. If more BC entrepreneurs were encouraged to do business internationally through the TPP, it would almost certainly improve the

province's export numbers and deliver a boost to our overall economic well-being.

Conclusion

After years of failed grand-scale global trade negotiations, it's intriguing to see a group of smaller countries bring a new approach to trade diplomacy by initiating the TPP. If the TPP talks eventually give birth to a formal free-trade partnership encompassing a significant portion of the Asia-Pacific region, the TPP may well become a model for future trade negotiations around the world.

Canada's trading and wider economic interests are increasingly shifting toward fast-growing emerging economies, particularly in the Asia-Pacific. British Columbia's strategic position means that it stands to benefit more than most other provinces as Canada forges stronger and more diversified commercial linkages with Asia. Businesses in BC have been less active in exporting than those in many other provinces, and better access to Pacific Rim markets may begin to remedy this situation.

It is also worth noting that BC is uniquely positioned to benefit from the emergence of a more Asian-centered world, not only geographically but also culturally. In particular, the lower mainland is home to among the largest and most vibrant Asian multicultural communities in the world. This cultural advantage provides a strong foundation to grow exports and further develop trade ties with Asia-Pacific markets, and may also assist in attracting Asian enterprises to locate here. Greater Vancouver can offer an ease of entry and an appealing operating environment for Asian firms seeking to build their presence in North America.

Because of the sensitive nature of these trade negotiations, it will likely be some time before we know specific details about any final agreement(s). The potential of this partnership ultimately depends on those specifics. But the strategic objective of bringing Pacific Rim nations closer together through expanded and freer trade is a laudable and timely one. As a nation that depends on and needs to diversify its trade, Canada is wise to pursue this opportunity. And as a small open economy on the Pacific coast, BC should support this effort with enthusiasm.

Peter Severinson, Policy Analyst

Peter.Severinson@bccbc.com

Jock Finlayson, Executive Vice President and Chief Policy Officer

Jock.Finlayson@bccbc.com