

WAITING FOR CONSERVATIVE TRADE POLICY

Michael Hart and Bill Dymond

The Conservative government inherited a trade policy that had run out of steam, and has yet to propose one of its own, either regionally within NAFTA and the western hemisphere or globally in the World Trade Organization, where the Doha Round is clearly failing. Once a world power in trade, Canada has been excluded from the inner group of the US, the European Union and Japan in the Doha Round. "India, Brazil and Australia have now displaced Canada from the inner core," write Michael Hart and Bill Dymond. "One could blame this sad state of affairs on Canada's implacable defence of supply management for the dairy and poultry sectors." They conclude: "In truth, Canada is no longer a player because it has little to contribute to — or to gain from — multilateral trade negotiations."

Le gouvernement conservateur a hérité d'une politique commerciale à bout de souffle mais il tarde à proposer la sienne, que ce soit dans la zone de l'ALENA et de l'hémisphère occidental ou à l'échelle de l'OMC, où l'échec du cycle de Doha devient manifeste. Autrefois puissance commerciale mondiale, le Canada a été exclu à Doha du cercle restreint formé des États-Unis, de l'Union européenne et du Japon. « L'Inde, le Brésil et l'Australie ont délogé le Canada de ce noyau central, écrivent Michael Hart et Bill Dymond. Et l'on pourrait imputer cette triste tournure à l'implacable défense de la gestion de l'offre menée par le Canada dans les secteurs des produits laitiers et de la volaille. » La conclusion des auteurs : « En vérité, le Canada n'est plus un acteur clé car il a peu à offrir — ou à gagner — au chapitre des négociations commerciales multilatérales. »

To date Canadians know little of the trade policy of the Harper government beyond the settlement on softwood lumber it has secured with the United States. Trade policy is not among the government's top five priorities and it received no mention in the April Throne Speech. The Conservative Party Policy Declaration is similarly uninformative, stating:

A Conservative Government will bring more security to existing trade related jobs. To create new employment opportunities, our trade agenda will focus on diversifying both the products we sell abroad and the markets into which we sell those products. A Conservative Government will secure access to international markets through a rules based trading system. A Conservative Government will strive to maximize the benefits we have as a free trading nation, emphasizing the need to establish trading relationships beyond North America.

Such a statement is no more than a placeholder and falls squarely within Canadian trade policy orthodoxy. Trade Minister David Emerson's speeches "Gateways, Trade and Competitive Success" in April and "Shaping a Global

Commerce Agenda for Canada" in June similarly covered some safe bases: the World Trade Organization (WTO) is a priority; NAFTA is important; Canada is developing strategic partnerships with China, India and Japan and negotiating a free trade agreement with Korea. In fact, there is not much to distinguish these positions from those set out in the 2005 International Policy Statement of the Martin government, a document now happily consigned to the government's archives.

In short, Canadians have few clues to date whether the Harper government will:

- favour multilateral or regional/bilateral trade and investment negotiations;
- if the former, invest in a major effort to revive the WTO's defunct Doha Round of multilateral trade negotiations; or,
- if the latter, pursue an ambitious agenda by overcoming the domestic opposition to the outstanding agreements with the remaining members of the European Free Trade Association (EFTA) and Central America, continuing with Korea and finding new bilateral partners with which to negotiate comprehensive bilateral trade agreements; and/or

- seek a NAFTA-plus agreement with the United States up to and including a customs union.

One point is clear: asking whether the Harper government should favour multilateralism or regionalism/bilateralism as the central theme of Canadian trade policy is to ask the wrong question. We should take heed of Robert Reich's warning: "In the life of a nation few ideas are more dangerous than good solutions to the wrong problems."

To be sure, the global trade policy environment is not propitious. The Doha negotiations are in a deep stall. On trade, the G8 Summit's St. Petersburg declaration essentially repackaged the WTO Ministerial Declaration adopted at Hong Kong in December 2005. The frenetic activity in Geneva in July was inversely proportional to the prospects of substantive results emerging in the foreseeable future. It has now dawned on the players that this negotiation does not matter that much. Most governments seemed happy to let the round stumble along indefinitely without having to take any tough domestic decisions. Ministers were prepared to let their officials continue to go through the motions, but were at pains to avoid becoming associated with failure.

WTO Director General Pascal Lamy has now accepted this reality and suspended negotiations until such time as the major players signal a willingness to engage the difficult issues. For reasons outlined below, the prospects of that happening in the foreseeable future are slim.

The proposal for a Free Trade Agreement for the Americas (FTAA) has run aground on the incompatibility of Brazilian interests and US political realities. It was already clear five years ago that Brazilian ambitions for regional hegemony clashed with a US-dominated hemispheric free trade agreement. At the same

time, US political realities assigned high political costs and low political or economic gain to an FTAA that opened the US market further to competitive Latin American agriculture and other products. While some countries — Venezuela, Bolivia and, potentially, Ecuador and Peru — are veering off into nationalist adventures uncongenial to trade liberalization, others are seeking and obtaining bilateral free trade agreements with the United States. In these circumstances, the prospects of breathing life into the FTAA are virtually non-existent.

The global trade policy environment is not propitious. The Doha negotiations are in a deep stall. On trade, the G8 Summit's St. Petersburg declaration essentially repackaged the WTO Ministerial Declaration adopted at Hong Kong in December 2005. The frenetic activity in Geneva in July was inversely proportional to the prospects of substantive results emerging in the foreseeable future. It has now dawned on the players that this negotiation does not matter that much. Most governments seemed happy to let the round stumble along indefinitely without having to take any tough domestic decisions. Ministers were prepared to let their officials continue to go through the motions, but were at pains to avoid becoming associated with failure.

Asia-Pacific free trade negotiations effectively died with the Asian financial crisis in 1997. Major countries in the region — Australia, China, Malaysia and Korea — are placing their negotiating priorities on either interregional trade arrangements or free trade agreements with the United States. Inertia maintains the habit of regular meetings among officials, but ministers are no longer politically engaged. Whatever

broader purposes Asia-Pacific Economic Cooperation (APEC) continues to serve, free trade is not among them.

Interest remains high in the conclusion of bilateral free trade agreements. The United States, China, Korea and Australia, among others, have been launching and concluding such agreements at a rapid pace. Trade Minister Emerson acknowledges that Canada has fallen far behind others, as the only major trading country not to conclude a bilateral free trade agreement within the last five years. But as the EFTA,

Central American and now Korean negotiations demonstrate, it is easier to initiate than to conclude such minor agreements. In the absence of strong support from a business community with a commercial stake in their outcome, such initiatives are too easily hijacked by dug-in protectionist interests, from shipbuilders to clothing and auto manufacturers.

Initial interest in the 1990s in concluding a transatlantic free trade agreement involving Canada and the European Union (EU) gradually morphed into the nebulous pursuit of a Canada-Europe Trade and Investment Enhancement Agreement. In effect, this initiative dusted off a project of now 40 years' standing of finding some way to interest European traders and investors in Canada. Like its various predecessors, it generates little interest in either the Canadian or European business community and has become little more than a mandate for officials and min-

isters to make periodic pilgrimages to Brussels and other European capitals to learn that the global trade regime offers the only reliable base upon which to pursue improvements in transatlantic trade and investment conditions.

The unpleasant reality is that the Harper government inherited a Canadian trade policy that has effectively ran out of steam: there is no economic



The Ottawa Citizen

US trade representative Susan Schwab and trade minister David Emerson at the signing of the Softwood Lumber Agreement in Ottawa last month, as US ambassador David Wilkins (left) and industry minister Maxime Bernier look on. While a major irritant in bilateral relations has been resolved, there is no big-picture agenda for moving forward on trade liberalization, within either the NAFTA or the WTO, where the Doha Round is failing.

or commercial market in Canada for multilateral or regional trade agreements, and no political market for addressing pressing matters in the relationship with the United States. The voice of the business community on trade policy is muffled, dominated more by sectoral “blockers” than by more broadly based promoters of trade liberalization. For most of Canadian business, only the US market is relevant; the rest of the world may be interesting but residual, and the government’s touting of the opportunities in emerging markets, notably China and India, evokes little more than polite interest.

The Liberal government abandoned a long-standing and reasonably effective consultative mechanism with the business community in favour of a political-

ly correct but ineffective consultative mechanism with civil society groups. No replacement has been created for effective dialogue with the business community as a whole. The consequence is a trade policy that is short-term and responsive to narrow interests rather than longer-term and creative.

There is clearly a need for some new thinking about the direction and content of Canadian trade policy. The best evidence of the need for new thinking consists not of what Canadians can see and hear but of what they cannot see or hear — rather like Sherlock Holmes’s dog that didn’t bark.

Exhibit 1 is Canada’s absence from the inner group at the Doha Round. In the not-too-distant past, Canada was a player, a member of the *directoire* of the

US, the EU, Japan and Canada that ran the WTO. India, Brazil and Australia have now displaced Canada from the inner core. One could blame this sad state of affairs on Canada’s implacable defence of supply management for the dairy and poultry sectors, a stance unanimously endorsed by the Conservatives, the Liberals, the NDP and the Bloc. In truth, Canada is no longer a player because it has little to contribute to — or to gain from — multilateral trade negotiations.

Individual Canadian ministers and officials may still play a useful role on the margins of meetings, but Canada is not engaged because it has no serious stake in the negotiations. The Canadian business community is massively uninterested. The Canadian media coverage of the

December 2005 Hong Kong Ministerial Conference was by wire stories and stringers, if at all. Canada is participating out of habit rather than in pursuit of important political or economic objec-

tor, are already in trouble and face a difficult uphill struggle if they are to conclude. The discussions with Europe have reached an impasse in the face of massive business indifference on both sides

intensive cooperation: the secure flow of people, the secure flow of goods, security infrastructure and coordination, and information sharing. What the declaration does not do is propose NAFTA or the WTO as a suitable vehicle for addressing these issues.

Exhibit 1 is Canada's absence from the inner group at the Doha Round. In the not-too-distant past, Canada was a player, a member of the *directoire* of the US, the EU, Japan and Canada that ran the WTO. India, Brazil and Australia have now displaced Canada from the inner core. One could blame this sad state of affairs on Canada's implacable defence of supply management for the dairy and poultry sectors, a stance unanimously endorsed by the Conservatives, the Liberals, the NDP and the Bloc. In truth, Canada is no longer a player because it has little to contribute to — or to gain from — multilateral trade negotiations. Individual Canadian ministers and officials may still play a useful role on the margins of meetings, but Canada is not engaged because it has no serious stake in the negotiations.

tives. In this it is not alone. The mature global trade regime has made a significant contribution to the prosperity of those members who have taken advantage of its rights and obligations. For those members who have not, the option to take up those rights and obligations remains, whether or not there are negotiations. The prospects for additional economic benefits from negotiations for both groups, however, are now marginal. For Canada, the best that can be obtained from the Doha negotiations — should they be restarted — is modest improvements in market access for a limited range of products and services, assuming that they are achievable without undermining supply management.

Exhibit 2 is the failure to complete the negotiation of free trade agreements with the rump of EFTA (Norway, Iceland, Switzerland and Liechtenstein) and the Central American four (Guatemala, El Salvador, Nicaragua and Honduras) in the face of small pockets of politically significant opposition — shipbuilding in the former and clothing in the latter — and indifference from the broader business community. The current bilateral negotiations with Korea, facing well-organized opposition from the auto sec-

of the Atlantic. Embarking on an ambitious program of new bilateral negotiations with other minor trading partners, while keeping trade officials busy, would create still more such hostages to fortune and bring few benefits to Canadian economic performance.

Exhibit 3 is the failure of the Canada-US/North American Free Trade Agreement to advance beyond a traditional free trade agreement, notwithstanding publicly stated ambitions that it should evolve with the times. The FTA/NAFTA Ministerial Commission, in which high hopes were invested, has been little more than a technical body from its beginnings in 1989. The bitter bilateral softwood lumber dispute has done considerable damage not only to broader Canada-US relations but to the reputation and credibility of NAFTA.

Exhibit 4 is the Canada-US Smart Border Declaration adopted in the aftermath of the tragedy of 9/11. Here the two governments grasped hold of the trade/security nexus and adopted a plan of action to address a set of old and new challenges. The declaration states the obvious point: "Public security and economic security are mutually reinforcing." It then sets out four areas for

Exhibit 5 is the treatment of economic issues in the Security and Prosperity Partnership of North America, adopted by the Martin government in 2005 and renewed by the Harper government in 2006. Negotiating a NAFTA-plus or any other form of trade agreement is nowhere to be found among the considerable number of initiatives endorsed by Canada, the United States and Mexico. Instead, the three governments maintained their interest in finding solutions to a range of border-related trade and security problems without invoking the instrument of a trade agreement.

Exhibit 6 is the fact that the Canadian business community, hitherto strong supporters of the FTA and NAFTA, is also looking for new answers that make little mention of new bilateral trade agreements. As regards the United States, transportation and border infrastructure, regulatory cooperation, energy and environmental strategy and development of continental approaches to managing shared risks, including terrorism and pandemics, top the priorities of the Canadian Council of Chief Executives and are echoed by the Canadian Chamber of Commerce and the Alliance of Manufacturers and Exporters.

Exhibit 7 is that the Canada-US border has become dysfunctional to the deeply integrated bilateral trade and investment relationship. US preoccupation with security against terrorism has steadily thickened the border, adding costs to doing business and creating disincentives to investment in Canada. There is no comprehensive bilateral

mechanism for cross-border cooperation on security issues, no clear rules for defining the boundaries between cooperation and unilateral action, no procedures other than ad hoc responses to resolving security issues such as the impending US requirement for cross-border travellers to have passports or alternative identity documents.

The first thing to do is to understand the problem. Elements emerge from an examination of the governance of Canada-US trade and economic relations. The original Canada-US Free Trade Agreement responded to a mixture of the classic trade policy issues of tariff and non-tariff barriers to merchandise trade and the new issues of services, investment and temporary movements of skilled personnel. Its successor, NAFTA, similarly comprised a mixture of old and new issues and brought intellectual property disciplines within the ambit of trade agreement rights and obligations. These agreements, like the multilateral WTO, assume that international trade consists of exchanges between unrelated parties operating in two separate markets. Their focus is largely static rule-making centred on the cross-border movement of goods and, latterly, services. Today, the importance of intrafirm trade — some two-thirds or more of the total between Canada and the United States — and trade in intermediate products as part of integrated supply chains creates a set of issues that need to be addressed but are beyond the scope of conventional trade agreements.

Further elements of the problem emerge from common themes in the Canada-US Smart Border Declaration, the North American Security and Prosperity Partnership and the priorities of Canadian business. Although these address North American trade and investment issues, they may be taken as proxies for the trade policy challenges facing the Harper government. One common theme is border

management. With 45 million trucks and 200 million individuals crossing the Canada-US border annually, a dysfunctional border poses serious long-term risks to the Canadian economy.

The second is regulatory convergence. As between Canada and the United States, regulatory differences are

Further elements of the problem emerge from common themes in the Canada-US Smart Border Declaration, the North American Security and Prosperity Partnership and the priorities of Canadian business. Although these address North American trade and investment issues, they may be taken as proxies for the trade policy challenges facing the Harper government. One common theme is border management. With 45 million trucks and 200 million individuals crossing the Canada-US border annually, a dysfunctional border poses serious long-term risks to the Canadian economy.

more matters of detail and implementation than of fundamental design, but they nevertheless affect trade and investment decisions. Whatever the merits of separate regulatory regimes, the economic costs of such differences are rising. It is evident that traditional trade negotiations, whether pursued through the WTO, regionally or bilaterally, provide a way to address these kinds of issues.

A third source illustrating elements of the problem arises from the significance of global supply chains as drivers of trade and investment. In his April speech, Minister Emerson observed that “we’re into a world where trade patterns and trade performance are going to be very closely related to the operation of global supply chains, and those are going to be deeply integrated chains, and they’re going to be globally distributed.” The most critical supply chains in which Canadian companies participate are North American, from autos and information technology to steel, energy and food processing. It follows that preoccupations with regional or bilateral trade relationships beyond North America or, as the Conservatives put it, “new products and new markets” are obviously misplaced. Developing strategic partnerships with China and India, pursuing

free trade agreements with Korea and others or concluding a Canada-Europe Trade and Investment Enhancement Agreement has little economic value unless it contributes to Canadian participation in North American supply chains. And that participation depends critically on configuring the North American rela-

tionship to 21st century trade and investment realities.

The Canadian economy has performed well over the past two decades as entrepreneurs in every sector have adapted to new North American and global realities. Canada has been a leader in the OECD in creating net new jobs. The Bank of Canada has succeeded in keeping inflation under control, even as the economy has performed at close to full capacity. Exports as a share of production peaked at 45 percent of GDP in 2000. Since then, domestic growth has outpaced growth in trade, bringing exports down to about 36 percent. Most of these exports have gone to the United States, as Canadian firms have become more integrated into North American supply chains and see their participation in these networks as critical to their future. Imports, on the other hand, have become more diversified as Canadians — both as producers and consumers — look to global sources to satisfy their needs.

There is little evidence that government direction has been critical to determining these patterns. They reflect market judgments by Canadians both as consumers and as producers. Government’s role has been to facilitate these judgments by removing artificial



Jason Ransom, PMO

President Bush and Prime Minister Harper stroll past the Rose Garden of the White House on July 6. “Trade issues,” write Michael Hart and Bill Dymond, “have become proxies for assessing the overall relationship with the United States.” Softwood lumber is only the latest example.

barriers and concluding agreements underwriting market access. Policy — as opposed to political rhetoric — has followed the market, not the other way around, and Canadians have benefited from this approach.

There remain barriers to realizing the full potential of the Canadian economy. Some of them lie in foreign markets. More of them reside in Canada. For those Canadians who worry about the productivity gap between Canada and the United States or who complain that Canada is not getting its “fair” share of North America’s foreign direct investment, the solution lies in changing Canadian policy choices. Limiting foreign participation in the financial services, communications and energy sectors, for example, both lowers Canadian productivity and reduces foreign participation in the Canadian

economy. Mollycoddling the dairy and poultry sectors costs Canadian consumers millions of dollars. Federal and provincial labour-market and income-support policies reduce the pace of adjustment to changing comparative advantage and global competitive conditions. There may be good social and political reasons for these policy choices, but their negative economic effects cannot be ameliorated through trade and investment negotiations with foreign partners unless Canada is prepared to accept new rules disciplining these choices.

The politics of trade in a Canadian context, all the more with a minority government, necessarily informs any policy direction. Since before Confederation, trade issues, especially with the United States, have had the

potential to rise to the top of the political agenda. In the elections of 1891, 1911 and 1988 and, more recently, with beef and softwood lumber, trade issues have become proxies for assessing the overall relationship with the United States. Trade initiatives, which boldly challenge the uncertain and colonial view that Canadians have of themselves vis-à-vis the Americans, are unlikely to emanate from a minority government, which in any case has yet to demonstrate that it has firmly held convictions on Canadian trade policy and for which the settlement of the softwood lumber dispute may be the limit of ambition.

Against this background, there are a number of serious questions that those interested in the future course of Canadian trade and investment policy and their impact on economic performance need to ask:

- What kind of an economy do Canadians want? Trade policy is an instrument of domestic economy policy. Where serious trade and investment barriers remain — agriculture, automobiles, shipbuilding, culture, telecommunications and financial services, to name a few — they are part of the domestic regulatory framework intended to pamper and protect some sectors of the Canadian industry. Much Canadian debate on such issues is driven by rhetoric rather than serious analysis. The internal government capacity to undertake such analysis is weak. Has the time come for a royal commission to inform public debate by delineating the options much the same way as the Macdonald Commission (the Royal Commission on the Economic Union and Development Prospects for Canada) did in the 1980s?
- Are Canadians ready for a Schengen-like border solution with the United States, similar to the agreement governing most intra-European movement of people, goods and services? That is, accelerating and completing the transfer of enforcement of public policy functions from the border to behind the border, as we do for air traffic and many other areas? Or do they think that Canadian sovereignty and security require uniformed officers at border points interrogating every person who crosses the Canada-US border?
- Can Canadians agree to a procedure on regulatory convergence whereby Canadian regulators would be required to consult with US regulators prior to implementing new regulations and declare publicly why Canada needs to have different rules? Should this be done on an incremental basis or is a

more comprehensive approach the best option? Or do they think that Canadian sovereignty requires that Canadian regulations be different?

- Can Canadians agree to create a comprehensive Canada-US mechanism for cross-border coopera-

and bilateral negotiations with minor trade and investment partners. As in the past, major initiatives have the potential for major impact, while minor ones will have, at most, a marginal effect.

Canadians cannot, of course, endlessly debate the question of the rela-

The politics of trade in a Canadian context, all the more with a minority government, necessarily informs any policy direction. Since before Confederation, trade issues, especially with the United States, have had the potential to rise to the top of the political agenda. In the elections of 1891, 1911 and 1988 and, more recently, with beef and softwood lumber, trade issues have become proxies for assessing the overall relationship with the United States. Trade initiatives, which boldly challenge the uncertain and colonial view that Canadians have of themselves vis-à-vis the Americans, are unlikely to emanate from a minority government, which in any case has yet to demonstrate that it has firmly held convictions on Canadian trade policy and for which the settlement of the softwood lumber dispute may be the limit of ambition.

tion to convey structure and form to the vast network of formal and informal networks of collaboration which officials and sometimes ministers have devised to meet specific needs? Should the two governments develop a new institution, modelled perhaps on the International Joint Commission, as a permanent source of advice and recommendation to both governments on all cross-border trade and economic issues?

Answers to these questions should inform the design and pursuit of Canadian trade policy in the immediate future and would provide any government with sufficient challenge to keep its trade and allied officials busy for years to come, making the kind of difference that earlier officials made in negotiating GATT, the Autopact, the FTA, NAFTA and the WTO. In the absence of answers, officials will continue in the default position of incremental resolution of the most pressing Canada-US trade and border problems and the pursuit of marginal but resource-hungry global, regional

relationship with the United States. One day, the US government will be entitled to ask Canadians some pointed questions about how they see the evolution of the relationship. Finding an answer big enough to interest American politicians and not so big as to frighten Canadian politicians will tax the imagination of officials and others interested in Canadian public policy. The Harper government has abandoned distance and animosity as a default position for the management of the relationship with the United States and brought maturity and perspective in its place. We see this as a hopeful sign.

Michael Hart is the Simon Reisman Chair in Trade Policy at the Norman Paterson School of International Affairs at Carleton University and a distinguished fellow of the Centre for Trade Policy and Law. Bill Dymond is senior executive fellow of the Centre for Trade Policy and Law at Carleton University and the University of Ottawa, and was part of the legion of observers in Hong Kong. Both are former federal officials with extensive experience in multilateral trade negotiations.