

# Canada's Goal: Re-engaging the World on Trade

*If the COVID-19 pandemic has reminded the world of how biologically and economically borderless our most wicked problems are, the presidency of Donald Trump was an object lesson in the importance of trade as a bilateral barometer and multilateral operating system. Veteran trade negotiator and former Canadian Ambassador to the World Trade Organization John Weekes looks ahead to the 2021 trade horizon.*

## John Weekes

The top trade priority for Canada in 2021 must be building an effective working relationship with the incoming Biden Administration in Washington. The reasons are simple. The United States remains by far our most important bilateral partner and working with the US will enhance the prospects for achieving Canada's objectives for global trade reform.

During the transition, President-elect Biden made clear that his focus will be on the pandemic, economic recovery, climate change, and healing a fractured country. Trade is not near the top of his priority list.

However, Biden will find it hard to avoid dealing with a number of trade issues because trade considerations will permeate many aspects of his domestic policy priorities.

Biden's trade policy will be more measured than Donald Trump's—less erratic, but still focused very much on what is best for American interests. Very importantly, it will be tempered by a belief that the rule of law in international trade relations is good for Americans. However, Biden's approach may still pose significant challenges for Canadian interests.

Any serious discussion of the future trade agenda will need to take ac-

count of the fact that the legislative framework empowering the president to negotiate trade agreements—Trade Promotion Authority or TPA, also known as “fast-track authority”—was last renewed in 2015 and expires on July 1 2021.

The pursuit of a number of Biden's top policy priorities will generate trade impacts in other countries. For example, addressing economic recovery through an infrastructure program with “Buy American” features, or addressing climate change by rescinding the presidential permit for the Keystone XL project, will adversely impact Canadian interests. At least, that's the consensus view of the Canadian energy sector and trade policy community. Even though this latter action would achieve no reduction of emissions in the US or globally, it would offer a political win for Biden's progressive supporters, led by his climate change czar, John Kerry, who as Secretary of State in the Obama Administration revoked the Keystone permit in the first place. On the hopeful side, the American Recovery and Reinvestment Act over which Biden presided following the 2008-09 financial crash included “Buy American” provisions to which Canada obtained key exemptions.

Several other trade matters will be hard to avoid. These include dealing with China, the crisis at

the World Trade Organization (WTO), foreign discrimination against American goods, and ongoing trade negotiations, notably with the UK.

Biden has been clear that he views China as a “competitor” and not an “enemy” and that he wants to work with allies in bringing China more effectively into the rules-based system. He will also need to decide what to do about the tariffs his predecessor applied to China.

As a supporter of traditional American multilateral diplomacy, the Biden administration will want to show American support for the WTO. In particular, it will want to engage constructively in appointing a new director general, revitalizing the organization's negotiating function, and in finding a solution to the impasse largely created by the Trump administration over the Appellate Body. Biden will want to use the WTO and its dispute settlement system as part of his China strategy. There will be significant opportunities for Canada to work with the new administration in pursuit of Canadian objectives for WTO reform.

Unlike Canada and several other countries, the US does not have a free trade agreement with the European Union (EU) and is not part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Trade negotiations between the US and the UK are well-advanced; an agreement may be seen as attractive to the US which would like to help define the UK's post Brexit trade policy. In addition, the Trump administration has completed so-called Phase I agreements with China and Japan and it intended to pursue more comprehensive agreements at an early date.

As the new administration takes stock of the trade files, it may well conclude



Historical context on NAFTA 2.0 begins in Texas in October 1992. President Carlos Salinas, President George H.W. Bush, and Prime Minister Brian Mulroney watch as their trade ministers, Jaime Serra Puce, Carla Hills and Michael Wilson sign the first NAFTA deal. John Weekes was Canada's Chief Negotiator in the talks. *George Bush Presidential Library photo*

that trade needs to move up the policy priority list.

Canadians should not forget that, while Canada will be focused primarily on the Canada-US bilateral, the US will be focused on the world. Canada can maximize its influence in Washington by demonstrating how it can be a helpful partner, with useful ideas. Working with the Biden team on global challenges will also improve prospects for successfully managing bilateral disputes.

To be successful in its US engagement, Canada needs to have a clear sense of its objectives and goals—the key elements of trade reform and trade disciplines needed to bolster Canadian trade competitiveness. This work will also pay dividends in furthering wider cooperation, for example with Mexico in working toward the smooth implementation of the Canada-US-Mexico Agreement (CUSMA) known as NAFTA 2.0.

Of course, Canada must also be prepared to firmly defend its interests if the United States, or any other country, takes unjustified action against Canadian exports that may require retaliation.

**T**he digital economy is the most dynamic factor in international economic relations. Improved trade rules are needed to foster its contribution to growth in the glob-

al marketplace. Much groundwork has been done including in the CUSMA, but more is needed in part to prevent splitting the world into two digital universes as a result of damaging friction between China and the US.

Governments will emerge from the pandemic heavily indebted; this offers an excellent opportunity to improve WTO disciplines aimed at reducing the use of trade distorting subsidies. Before the pandemic, the US, the EU and Japan were already discussing how to engage in such negotiations with China. For Canada, heavily dependent on the export of primary commodities that are often subsidized by foreign governments, this is a unique opportunity.

The pandemic has illustrated the fragility of supply chains for medical products and underlined the need for a more resilient system to manage a future pandemic more effectively. Canada is already promoting new approaches through the Ottawa Group.

**B**eyond the US, Canada needs to redouble its efforts to ensure Canadians can sell their goods and services into fast-growing markets in other parts of the world. The Comprehensive Economic and Trade Agreement (CETA) with Europe and the CPTPP offer Canadians a chance to succeed in these markets because the United States does not have free trade agreements with these countries.

In the Pacific, Canada should be encouraging other countries in Southeast Asia to join the CPTPP if they are willing to accept its high standards. Doing so took on new importance in November when 15 countries signed the Regional Comprehensive Economic Partnership (RCEP). This deal, eight years in the making, links the 10 members of the Association of Southeast Asian Nations (ASEAN) with China, Japan, South Korea, Australia and New Zealand. Although it is not of the same quality as the CPTPP it is nonetheless expected to have significant trade-generating effects.

The Canadian government has already concluded a trade continuity agreement with the UK, to ensure the two countries continue to apply CETA-like conditions to each other when the UK completes its transition out of the EU on December 31.

In both the EU and the Pacific, the government needs to make a further effort to encourage and assist Canadian businesses to take advantage of these new trade agreements.

Finally, the government should develop a long-term strategy for strengthening trade relations with China. China is simply too big to ignore. By some measures it already has the world's largest economy and is growing at a much faster rate than any of our other partners. Despite the current political difficulties in the bilateral relationship, Canada's merchandise exports to China in September 2020 were 12.5 percent greater than a year earlier—this, while Canada's total merchandise exports dropped 7.4 percent and exports to the US were down 9.1 percent.

While there is no doubt about the tightening that has taken place under the Xi Jinping regime, at some point, if China's history is a guide, those favouring opening up and greater reform will once again be in the ascendancy. Canada needs to lay the ground now to prepare for that opportunity. **P**

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