

CANADA WEST FOUNDATION

CANADA MUST RISE TO THE NEW TRADE CHALLENGE



KEYNOTE



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Even though the West accounts for only 30 per cent of Canada's population, it is responsible for 43 per cent of the country's exports.

With a new federal government and emerging trade challenges, it is important that we have a West that contributes to building a strong Canada. It is equally important that we have a government that will work with the West to enable us to contribute to building a strong Canada.

The work of my centre, and the subject for this talk, is how we can ensure that the West and Canada continue to profit from foreign trade and investment. This is important not just for western Canada, but for all of Canada. Even though the West accounts for only 30 per cent of Canada's population, it is responsible for 43 per cent of the country's exports. It is important that we get the big and the small questions around trade right.

There are, ladies and gentlemen, two sets of challenges we must prepare for now: changes within the United States, and the increasing competition that will accompany the Trans-Pacific Partnership Agreement.

The U.S. is your largest international customer. Those of you who are worried about the opportunities we enjoy in the U.S. are on to something. We have seen a steady erosion of our ability to advance and defend our interests with the U.S. And things are about to get even more difficult.

The erosion of our special relationship with the U.S. is easy to miss. It has not happened suddenly. It has also not been the fault of the outgoing federal government. It has been the result of the two countries growing apart. Three factors help explain what is happening.

The U.S. that we knew, and that we think we still know, is no longer there. It is undergoing the largest demographic shift in its history. By 2050, it is estimated that Hispanics will make up 30 per cent of the U.S. population – double the number of African Americans. Hispanics are the majority minority population in most states along the

Canada-U.S. border. Every month, 50,000-60,000 *U.S.-born* Hispanics turn 18. And we're starting to see major differences in public opinion polling on, for example, environmental issues between Hispanics and other groups. This change and its impact on the politics and commerce of the U.S. have gone largely unnoticed in Canada.

Concomitant with this demographic shift in the U.S. has been the rise of Mexico in North America, from the world's 15th largest economy 20 years ago to the 11th largest today – now four spots ahead of Canada. The special attention that Canada once enjoyed in the U.S., and particularly in D.C., is eroding and it's not coming back. It really has less to do with us and more to do with the rise in importance of Mexico. This could also be a foreshadowing of what's to come with the TPP.

There is also a generational shift in the U.S. that is exemplified by the Obama-McCain split. Older generations, like U.S. Sen. John McCain, tended to pay attention to our relationship. The newer generation, represented by President Barack Obama and those who voted for him, have grown up thinking about Mexico and taking Canada for granted.

We have not done much to help ourselves. In 2008, the federal government ended its Enhanced Representation Initiative in the U.S. The ERI was established to increase the network of Canadian foreign offices in the U.S. to further our ability to advance Canadian interests. Since the program ended, the number of Canadian missions in the U.S. has dropped – in recent years at least six offices were closed including the consulate in Houston, bringing the total to 16. Mexico has 51 offices throughout the U.S., and six in Canada, with a seventh planned for here in Winnipeg. Canada has just four diplomatic missions in Mexico.

U.S. and Mexican politicians, media and businesses have more and better information about their neighbours in North America than Canadians do. Saying that the U.S. and Mexico have more people and resources is not an excuse. They are investing in their most important relationship and we are not.

These changes pale in comparison to what I foresee happening under the TPP.

We've been lucky with NAFTA, having to fight only with Mexico for U.S. market share. In spite of our indolent lethargy, our passive waiting until something happens to take action, our lack of investment in the relationship hasn't really bitten us. We've survived, done well even.

That won't be the case in the future in North America and it will never be the case in the new TPP markets.

We haven't given the TPP much thought here in Canada. Most Canadians are probably still unsure as to whether it's a trade agreement, rap group or new brand of toilet paper. When we have turned our minds to it, we have largely considered it to be like other bilateral agreements we have signed. That is a huge mistake.

What we have missed is that, in essence, the TPP is an expansion of NAFTA – an expansion across the Pacific Ocean, an expansion from three to 12 members. We're about to get nine new competitors pulling up to that exclusive table-for-three that was NAFTA – nine new competitors, who are more aggressive, hungry and capable than Mexico was 20 years ago when it joined NAFTA.

Access to the U.S. through NAFTA benefited provinces like Manitoba, with an average of 72 per cent of exports over the last 20 years being shipped to the U.S.

The TPP will deliver advantages like lower tariffs that will provide opportunities for Manitoba. Already, 76 per cent of the provinces exports move to TPP countries. But, while the TPP will open up new markets for us around the Pacific, in each of those markets we are going to see the other signatories to the agreement also rush in to take advantage of the preference the TPP gives all of us.

Many of the products that Manitoba exports – to the U.S. as well as to foreign markets – are also strong suits of our soon-to-be TPP competitors: Australia in oil, machinery, cereals and meat; Malaysia and Japan in machinery and vehicles; Vietnam and Brunei in crude oil and the U.S. in everything.

This level of competition is not what we have been used to with bilateral agreements. So, what can we do?

Before I lay out some ideas, let me offer a note of optimism. I think we're about to embark on an era of action. In June, before the election, Justin Trudeau gave a major policy address on the importance of North America and what he would do. This was a signal to our neighbours. And they have noticed.

If we in the West are to profit from this rapprochement, then we need to be ahead of it.

Our new trade agenda for the West should include: shoring up our capacity to understand and influence the U.S., reaching out to Mexico, strengthening North American institutions to protect what we have, fighting to keep our trade infrastructure advantage and seizing easy opportunities.

Here are some straightforward ideas:

1. Increase our capacity to understand and act on changes in the U.S. Reopen a few consulates and do so creatively without simply increasing the foreign affairs bureaucracy. At the same time, organize and leverage the Canadian diaspora inside the U.S. as a way to boost our presence. We should also build institutions in Canada, including western Canada, to match the public policy research centres in the U.S. and Mexico that focus on North America. We need public policy organizations that directly support government and the private sector. Your competitors in Mexico and the U.S. benefit from access to the work of think tanks focused on North America; you do not.
2. On Mexico, we need to buy the next premier of Manitoba a plane ticket to Mexico. The business community in Saskatchewan and Alberta need to do the same. Asking Christie Clark to fly anywhere other than China is I think hopeless, but it shouldn't be for the other premiers. Quebec and Ontario are there looking after their interests; we in the West are not.

We need to shore up our capacity on the U.S., reach out to enlist Mexico as an ally, build North American institutions to keep what we have, and focus on trade infrastructure.

3. We need to face up to the fact that our best bet to keep what we have in North America is to work with Mexico and start to build North American institutions. Some already exist, such as committees, working groups and initiatives that seek to deepen the connections created by NAFTA. These are places where we have the attention of the Americans and common dedication to an on-going enterprise that is viewed in DC, Mexico City and Ottawa as crucial to each country's interest. As the U.S. shifts its focus to the TPP, it's going to get harder to keep their attention and dedication to these things.

4. We need to build on the advantages that we have in trade infrastructure. Manitoba is the geographic centre of North America: one hour away from western Canada's busiest U.S. border crossing and home to the tri-modal transportation hub CentrePort. The new government in Ottawa needs to build infrastructure that will move goods, people, money and ideas to and from foreign markets. The Liberal Party platform, however, lays out an infrastructure spending plan that calls for \$60 billion for social, green and public transit infrastructure. Meanwhile, the New Building Canada Fund, established by the previous government, allocates only \$14 billion over 10 years for trade infrastructure. If these calculations hold, then the government certainly has the balance wrong. Our ability to move products and people efficiently is key to being competitive in markets around the Pacific. For example, with wheat transport costs for moving wheat in Canada are 68 per cent higher than in Australia. If we're going to survive we're going to have to get better.

Those are the strategies that will be crucial to saving our skins in the new, more competitive international game: shoring up our capacity on the U.S., reaching out to enlist Mexico as an ally, building North American institutions to keep what we have, and focusing on trade infrastructure.

Let me add two things of particular importance to Manitoba.

We need to find and hold easy opportunities on this side of the Pacific. Why, for example, would Canada cede the softwood lumber market in Mexico to Brazil and Chile when we have a trade agreement, rail connections and a historic linkage?

We also need to be able to move people with ease. If you want investment, if you want a thriving services trade including tourism, if you want to get on the international map, you need to be an easy stop on the global merry-go-round. Otherwise you're going to be standing outside the fence without a ticket to ride. In the near future, moving people to and from western Canada is going to be what moving grain by rail is today for western Canada.

None of this is going to just happen. It will require forceful, focused and – sustained – effort, from all of us.

This is going to be a moment of great challenge. We can rise up to meet it or get run over by it. It is up to us to decide how to respond. At the Canada West Foundation, we are preparing for this challenge and we hope to work with you in doing so.