



Expanding Market Access with the Trans Pacific Partnership

Issue

Ratification of the Trans Pacific Partnership (TPP) is important for the future of Alberta because membership in the largest free trade area in the world is a prerequisite for success in today's global economy. This is not to say that the TPP will not entail adjustment costs and disadvantages to some segments of our economy. It is simply that the benefits of the TPP far outweigh its costs and also offer new growth opportunities. Most important, it will allow Canada to fully exploit its potential as a trading nation.

Background

From a strategic standpoint, U.S. membership in the TPP means Canada must also join in order to defend our market position in the U.S., which is our largest export market. While the TPP offers no guarantee against an erosion of our market share in the U.S., it at least allows us a level playing field against other TPP members. This is significant as the TPP includes trade-enhancing provisions that are not currently embedded in NAFTA such as those regarding financial services, sanitary and phytosanitary measures, competitiveness and business facilitation, competition policy, rules of origins procedures and the environment etc. These chapters in the TPP effectively envision a free trade area that is much more advanced and integrated than any free trade area that has existed to date. Its inclusion of contemporary issues such as state owned enterprises, electronic commerce, telecommunication, intellectual property and small and medium sized enterprises (SME) will make TPP the foundation for trade governance for the contemporary global economy. (Indeed, the TPP is seen by many as an attempt to create a framework for global trade rules in reaction to a rising China). TPP members are expected to increase their trade with other TPP members at the expense of non-TPP members¹. Canada must be part of the TPP community and help shape the future of world trade from within.

For Alberta, much of the expected benefits from the TPP are well documented. They include access to important new markets in the Asia-Pacific, elimination or significant decrease in tariffs on Alberta's key industrial and agricultural exports, reduction in regulatory barriers, and increased transparency and enforceability of trade rules. The benefits of these measures are particularly pronounced in TPP's Asian markets. For example, Alberta's beef exports will enjoy a reduction in rate under from 38.5 percent to 9 percent in Japan over the next 15 years and a reduction from 34 percent to zero in 7 years in Vietnam. Exports from Alberta will see its current tariff rates of 20 percent in Japan and 27 percent in Vietnam eliminated in 10 years and 9 years respectively. For most industrial, agricultural and agri-food products from Alberta, they can expect tariff reduction within 3 years and duty free access under the TPP within 10 years².

¹ Marcos Piacitelli, "TPP-Trans Pacific Partnership – Overview," tax.thomsonreuters.com, Oct 16, 2015.

² See Government of Canada, "Advantages of the Trans-Pacific Partnership Agreement for Alberta," Oct 5, 2015.

In sum, the following are benefits Alberta can expect from the TPP once its provisions are fully implemented:

- “Duty-free market access for the majority of industrial goods, including on metals and minerals, chemicals and plastics and industrial machinery;
- Duty-free market access for most agricultural and agri-food products, including canola oil, feed wheat, feed barley, and dog and cat food, as well as enhanced market access for food wheat, beef, pork, malt and food barley;
- Duty-free market access for wood and other forestry products, including lumber, oriented strand board and newsprint;
- Improved market access commitments for temporary entry of highly-skilled Canadian business persons;
- More transparent and predictable access for services suppliers in key sectors, such as professional and construction services;
- Predictable, non-discriminatory rules for Canadian investors;
- Strong provisions on non-tariff measures, backed up by fast and effective dispute settlement provisions.”³

The importance of the above measures in facilitating our access to Asia-Pacific markets cannot be overstated. In 2013, Canadian goods were only 1.44 percent of the market in Japan, 0.49 percent in Malaysia, 1.17 percent in New Zealand, 0.33 percent in Singapore, and 0.31 percent in Vietnam⁴. The Canadian presence in the Asia-Pacific markets is anything but strong. While our efforts to increase trade with Asia have led to some positive outcomes, the overall results to date are mixed. In the first half of 2015, Canada’s trade with Australia, Malaysia, New Zealand, and Vietnam has grown by annualized rates of 8.58 percent, 10.39 percent, 8.18 percent and 77.26 percent respectively; our trade with Japan declined by 12.78 percent and that with Singapore by 12.72 percent⁵. The changes in tariff structure under the TPP are expected to help us increase our market shares in countries with high tariff barriers such as Malaysia and Vietnam and to improve our competitiveness in crowded market places such as Japan and Singapore. When 60 percent of future global economic growth is expected to occur in Asia, our access to markets in this region is vital to our economic wellbeing.

Beyond market access, the above benefits are essential also in helping Alberta diversify its economy. The TPP would allow Alberta to gain new access to consumer markets and diversify geographically by increasing the number of our export destinations. This would enable Alberta to reduce its current reliance on a limited number of markets for its exports and achieve greater income stability. The TPP would make it possible for Alberta to pursue a more dynamic and diversified economic path leading to greater efficiency and productivity gains.

Indeed, the TPP’s ability to increase Alberta’s productivity and efficiency over time is an important argument in support of its ratification. Notwithstanding the short-term dislocation and disadvantage of any trade agreements, the effects of trade in making nations more efficient and productive through competition, scale economies and rational resource allocation are well known. Today, these benefits of trade are manifested through the global value chain (GVC). Companies now produce, distribute, invest

<http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/tpp-ptp/benefits-avantages/pt/ab.aspx?lang=eng>

³ *ibid.*

⁴ Figures calculated from data published by Asia Pacific Foundation of Canada. <https://www.asiapacific.ca/statistics/trade/market-share/canadas-market-share-asia>

⁵ Figures calculated from data published by Asia Pacific Foundation of Canada. <https://www.asiapacific.ca/statistics/trade/bilateral-trade-asia-aggregate/canadas-bilateral-trade-asia-pacific>

and compete through their global supply chains. Trade and investment are interrelated like never before. Markets in different countries are increasingly interconnected leading to greater policy interdependency among nations. “The “them and us” of much old thinking about trade has increasingly been shunted aside by an “us” focus.”⁶ Trade policy must no longer be piecemeal and should be made in the context of the GVC. This is particularly true of the emerging global service trade. Capturing more value added and integrating a nation’s industries into the GVC must now be a policy priority. In this context, the Rules of Origin and Origin Procedures chapter of the TPP is an acknowledgement of the importance of removing unnecessary hurdles to the GVC. It is intended to encourage more GVC integration within the TPP. Alberta wants to be part of this integration.

According to recent WTO data, most nations have significantly increased their participation in the GVC between 1995 and 2011⁷. Countries participate in the GVC either through importing into domestic production or exporting into foreign production. In Canada’s case, our participation in the GVC is dominated by our imports. To understand our GVC participation, let us compare our GVC participation with that of Australia, a country similar to us in economic profile. While GVC participation account for 19 percent of Canada’s exports and 23.4 percent of our imports in 2011, the similar figures for Australia are 29.5 percent and 14.1 percent respectively⁸. The average figures for exports into the GVC are 23.1 percent and 24.2 percent for developing and developed countries. These figures point to an urgent need for Canada to increase its export participation in GVC. Given the influence of GVC on investment, increasing our participation in the GVC is not simply an export question. It would also impact on FDI and prospects for new economic activities in Canada. Ratification of the TPP would be the essential first step for Canada and Alberta to increase its exports and create more value added activities to the benefits of our citizens.

In conclusion, the TPP should be supported for both its trade enhancing features and the strategic opportunity it provides for Alberta to increase our GVC participation. They are important to Alberta if we are to achieve our goals of new market access, economic diversification, income stability and greater involvement in the GVC. Alberta and Canada must be part of this significant evolution in global trade relations. Given that trade and market access are key dominant priorities for Alberta and Canada, the business sector and the public needs to be made fully aware of implementation obligations and new opportunities and impending competition.

The Alberta Chambers of Commerce recommends the Government of Alberta and the Government of Canada:

1. Work together with all Provinces and Territories to have the Trans Pacific Partnership ratified by Canada in 2016.
2. Involve business in strategic market development initiatives and in identifying market insights that could lead to additional trade opportunities through business practice or product adaptations.
3. Implement awareness and market access building activities on Pacific area trade opportunities within the global supply chain and with a focus on Alberta’s strengths in agri-food, forestry, energy and the technology and service sectors.
4. Work with chambers of commerce and industry associations to build knowledge within Canadian corporate executives relating to acceptable business practices, cultural etiquette and relationship building in the Trans Pacific partner countries.

⁶ Deborah K. Elims and Patrick Low, *Global Value Chains in a Changing World*, WTO Publications, 2013, p.xvii.

⁷ https://www.wto.org/english/news_e/news16_e/stat_28jan16_e.htm

⁸ https://www.wto.org/english/res_e/statis_e/miwi_e/countryprofiles_e.htm

5. Leverage enhanced market access channels resulting from the Trans Pacific Partnership by continuing to aggressively pursue bilateral trade agreements with countries such as China that are leading participants in Pacific focused trade.