The signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership comes at a pivotal time for Canada, when the U.S. is asserting a more protectionist trade policy. President Donald Trump's recent tariff move on steel and aluminum only drives the point home. Will the CPTPP provide any offsetting benefits? Our view: not an immediate, across-the-board economic boost, but some wins. They include a limited hedge at a time of NAFTA uncertainty, the elimination of behind-the-border hurdles that are especially difficult for smaller firms to overcome, and a voice at the table as new global trade relationships develop.

Casting a wider net for Canadian goods and services

The CPTPP comprises a $13.4 trillion (US$10.5 trillion) economy of 500 million consumers—representing 13% of global GDP in 2017, or more than the Eurozone’s five largest economies combined. Yet Canada’s new CPTPP trade partners currently absorb a mere 5% of our goods exports. Also, 80% of this market—the pact’s seven Asian economies—do not have free trade agreements with Canada. Notwithstanding some competition in sectors such as food, chemicals and transportation manufacturing, Canada’s trade with those countries is fairly complementary. Its top-three goods exports and imports to and from the group do not overlap. More such trade should be welcome.

In addition to casting a wider net for Canadian exports, what does the CPTPP offer? We have identified four benefits.

1. A limited hedge at a time of U.S. trade uncertainty

The CPTPP forms the basis for more Canadian export growth in the direction of Japan and other markets. It doesn’t lessen our export dependence on our southern neighbour, but it does offer growth at the margins. Ottawa estimates that Canadian exports to CPTPP partners could increase by 4.2% or $2.7 billion, and provide a very minor boost to Canada’s GDP of $4.2 billion by 2040.

Together with the Comprehensive Economic and Trade Agreement (CETA) with the European Union, the CPTPP provides a limited hedge for some export sectors at a time of rising protectionism in the U.S.

Such a hedge may appeal to sectors that would face higher Most Favoured Nation duties at the U.S. border relative to...
the NAFTA schedule, such as vegetables, oils and fats. It may also appeal to sectors that already export across the Pacific and have been stung by U.S. trade action in the past. Those include beef and pork production and more recently, steel and aluminum. However, some of these sectors would also face significant competition from CPTPP members (e.g. Australian beef and mineral fuels). CPTPP markets would also need to demonstrate their viability as export alternatives for Canada when factoring in transportation costs relative to expected market share gains.

Whatever hedge value the CPTPP provides shouldn’t be exaggerated.

Major export sectors such as automotive and machinery remain somewhat locked into existing North American trade patterns due to decades of capital-intensive supply chain integration. If anything, they may see more competition, given CPTPP rules of origin could benefit Japanese automotive exporters to Canada by allowing them more liberal access to components sourced from Chinese and other East Asian suppliers.

The short-term benefit to small and medium-sized firms could also be limited. Some 88% and 96% of small and medium exporters, respectively, sell to the U.S., whereas only 15% and 24% do so to Asia ex-China. Given the time and resources involved in exploring new and unfamiliar markets, the CPTPP hedge may only be of longer-term value to such firms.

2. Tackling those thorny “21st century” trade barriers

The CPTPP tackles many so-called 21st century trade issues that limit effective market access to exporters through non-tariff barriers and other deterrents. These issues include digital commerce, liberalization of trade in services and investment, customs and trade facilitation, technical barriers to trade, and more. Addressing these issues should be of particular benefit to smaller and medium-sized exporters, for which maneuvering such trade issues can pose a formidable hurdle to expanding their markets.

North American exporters often cite Japan in particular as a challenging market, not on account of its duties on non-agricultural goods (its simple average applied Most Favoured Nation rate is 4%), but because of its widespread use of country-specific criteria that diverge from international practice. Its non-tariff barriers include labelling requirements, direct and indirect subsidies for domestic grain production, safety requirements for construction materials, differing regulatory standards for domestic and foreign financial institutions, and much more.

3. Keeping up with the Joneses—or getting ahead of them

The CPTPP is partly a defensive play for Canada. The “Joneses” to keep up with are economies which compete with key Canadian exports in CPTPP markets and that recently concluded their own free trade deals with CPTPP countries. Take the EU, which concluded a trade deal with Japan in 2017, and looms large as a competitor to Canada across a range of exports, including beef, pork and other processed food, wood products, and financial services. Without the CPTPP, Canadian exporters of such goods and services risked seeing their competitiveness further erode in favour of EU exporters. For example, Canada’s relative share of Japanese meat imports has decreased since 2010, whereas the EU’s has grown.
On offense, Canada may gain some advantage over the U.S. by being in the CPTPP. Canadian beef, pork and wood products producers, but also financial services, could gain market share in economies such as Japan’s at the expense of U.S. competitors. Again, while the U.S. share of Japanese meat imports has grown relative to Canada’s since 2010, the CPTPP may confer Canadian meat producers and processors an advantage.

4. The long game: a voice at the table
The U.S. and China remain the elephants in the room. The CPTPP was concluded so as to allow Washington to eventually join the rebranded trade pact under a future administration. President Trump even apocryphally suggested in Davos that his country may do so under his own administration, provided it was “in the interests of all.” Hence the retention of virtually the entire TPP text originally negotiated with the U.S., and the “suspension” of some of the more controversial clauses on IP and dispute settlement that the Obama administration had secured, but which could resume if the U.S. re-entered the agreement.

Ultimately, the CPTPP remains as much about long-term geopolitics as about trade benefits. The Obama administration envisioned the TPP as the economic prong of its Asia pivot strategy, to ensure the U.S. and its closest partners in the Asia-Pacific region would take the lead in defining regional trade rules for the current century. Some observers even suggested the TPP would eventually mutate into global trade norms for the new century. Beijing’s own regional trade push, including the One Belt One Road initiative championed by President Xi Jinping, is ostensibly an alternative model.

**Being a member of the CPTPP will secure a Canadian voice in influencing regional trade rules.** It also could give Canada some leverage in exacting concessions from potential new entrants, and allow it to pool its negotiating weight with like-minded partners on some issues. Indonesia, the Philippines, South Korea, and even China have at one point expressed interest in eventually joining the TPP. As a trading nation, it’s in Canada’s interest to help set the rules for trade and investment within the Asia-Pacific region.
Competing frameworks for regional trade and investment

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