

# The trouble with Canada's 'progressive' trade strategy

By Hugh Stephens

December 8, 2017 – *Opencanada.org*

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*The Liberal government's attempts to make trade more inclusive hit a wall this week in Beijing. Hugh Stephens breaks down the idea of 'progressive trade' and asks whether it is worth its weight in marketing.*

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It hasn't been a good few weeks for the Trudeau government's "progressive" trade agenda.

First, the unwillingness of some countries to swallow elements of the progressive agenda was at least partially responsible for the sudden postponement of an announcement around the Trans-Pacific Partnership (TPP) last month in Vietnam. The announcement was expected to confirm that the 11 TPP countries had reached an agreement in principle to conclude the pact.

Then an expected agreement on the start of free trade talks with China did not materialize during Justin Trudeau's Beijing visit earlier this week, blocked by Chinese objections to including "progressive elements," such as labour and gender rights, in the negotiations.

In both cases, talks have not been completely derailed, but it is fair to say the outcome is not what was expected. And in both instances this progressive agenda has been fingered as a principal cause.

Given the fact that progressive trade is proving controversial, it is worth examining what the concept actually means. It has become the term of choice for the Trudeau government, a branding exercise that seeks to distinguish the Liberals from the Harper government. The thinking then goes, if the TPP — negotiated by the Conservatives — was unpopular with some elements of Canadian society, why not change the dial, add some "progressive" elements and even modify the name? Thus the new version of the TPP (with its 11 country members, down from 12 since the United States backed out) is now the "Comprehensive and Progressive Trans-Pacific Partnership."

Likewise with China, the government might be thinking, if negotiating a trade agreement with China stirs up opposition from some Canadians who either fear being swamped by Chinese goods or capital, or don't like the way China treats its citizens, then let's add "progressive" elements to the agreement. Addressing lax labour or environmental standards in China that lead to lower cost Chinese exports, or championing "Canadian values," such as gender equality, could allay some Canadians' concerns.

The label itself seems to have emerged from the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) negotiations, when there was opposition in some EU countries to concluding a deal with Canada. Part of the concern was that a deal with Canada would become a template for an agreement with the United States, unlikely as that now seems. Part of Canada's strategy was to convince Europeans that it was okay to deal with Canada, a "progressive" country that looked after its citizens, worked actively to minimize inequalities, respected minorities and immigrants, and so on.

Within Canada the term has come to represent a desire to make trade liberalization more inclusive — to convince Canadians that the results will be of overall benefit to Canada. While economists can agree that trade liberalization benefits economies at the macro level, at the micro level there are always those who see welfare gains, and those whose immediate welfare is reduced as a result of the (necessary) changes in the economy brought about by greater overall efficiencies. For

example, while China might be the most efficient producer of solar panels, and Canadian consumers and the overall Canadian economy will benefit by purchasing the most cost-effective product, companies producing solar panels in Canada may be hurt.

Canada is a trading nation and needs to trade widely, but populist, anti-globalization forces need to be recognized and responded to. One way to do this, from the government's perspective, is to promote a "progressive trade agenda" and to differentiate it from previous, more traditional agreements.

### **What is 'progressive' when it comes to trade?**

There is no firm definition of what defines a "progressive" agreement, but several areas have been highlighted, particularly with respect to China. These include chapters within an agreement to address labour, environmental, gender and even Indigenous issues. The issue of human rights, or "governance," is also often bundled with these other elements, especially in the Chinese context. Human rights does not lend itself to treatment within a trade agreement, however, and the Chinese have made it abundantly clear that they are not interested in putting their human rights record under scrutiny in a trade context.

That said, the concerns that Canadians have with China's human rights record cannot be ignored if the Trudeau government is to get sufficient popular support to conclude a deal with Beijing. The answer is to re-establish a human rights dialogue on a separate track. Some elements of human rights can also be dealt with through language on labour and gender in an agreement. However, the Chinese are reluctant to bring into a trade agreement elements that they consider to be extraneous.

For China, an agreement with a G7 economy like Canada will be a significant step up from the few agreements it has already concluded with other developed countries (just five in

total: New Zealand, Australia, Switzerland, Singapore and South Korea). A Canadian agreement will be the template that will be followed when China reaches out to other G7 economies, so it is conscious that whatever terms are reached with Canada will be included in an eventual agreement with the European Union, Japan or the United States. Disciplines on labour and environmental practices are legitimate subjects for trade agreements, although China's agreement with Australia did not include such provisions. When the North American Free Trade Agreement was concluded there was concern about Mexican labour and environmental standards; side agreements were established around these topics, allowing civil society to raise complaints under the terms of the agreement. While it is almost impossible for Chinese civil society to bring pressure on its own government, there could be other ways of addressing labour standards. If China does not want to accept full labour commitments in the agreement itself, one solution might be to put labour and environmental commitments into a side agreement. This formula could possibly meet Chinese concerns, but the real issue will be to what extent labour and environmental commitments are binding and subject to dispute settlement.

Gender and Indigenous issues are more problematic. There is only one bilateral agreement (the revised Canada-Chile agreement) that contains a specific gender chapter, but even here there are no concrete commitments, other than an annual meeting of a trade and gender committee, nor are the provisions of the gender chapter subject to dispute settlement. While CETA has gender non-discrimination language, it is fair to say that Canada is ploughing relatively new ground in its push for inclusion of specific language on gender issues in trade agreements. While Chairman Mao once proclaimed that "women hold up half the sky," there are only 10 females among the 204 members of the Chinese

Communist Party central committee. It may be easier to make progress on gender issues with countries that more closely share Canadian values.

It is also important to consider what can reasonably be achieved in a trade agreement and what should be left to domestic policy. For example, gender wage parity in a trade agreement may be a noble goal, but it rings hollow when there is no gender wage parity in Canada today. On the Indigenous front, China is never going to provide for special treatment within a trade agreement for Tibetans, Uighurs or any other group that might be considered an Indigenous minority. And Canada needs to think this through as well. What would be the impact on incoming foreign investment if an Indigenous chapter endowed First Nations with a veto over certain projects, often referred to as “prior and informed consent”?

All these considerations make elements of the “progressive” trade agenda controversial and

problematic. While the Trudeau government is right to address issues, such as labour and environmental standards, that can distort trade, Canada has to be careful not to overplay its hand on “progressive” trade.

There are significant potential benefits to large parts of the Canadian economy from a good trade agreement with China, and China right now is interested in doing a deal with Canada. That provides an opportunity. While Canada needs to be comfortable with the parameters of a negotiation with China, it also needs to be realistic. The moment is ripe to move forward and even though China tends to take the long view, the window of opportunity won’t last forever.

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