

Intelligence MEMOS



From: Paul Jenkins and Mark Kruger

To: Trade Policy Observers

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Re: **CANADA SHOULD SEIZE ITS TRADE LEADERSHIP OPPORTUNITY**

The global economy has become fragmented, and an important cause has been the inability of international trade and finance governance institutions to adapt to changing realities. However, Canada has a unique opportunity to help repair today's global trading system.

This year, the country is chairing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership Commission. The CPTPP is a free-trade agreement between Canada and 10 other countries in the Indo-Pacific (Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam).

The commission's role includes considering new applicants and setting the standards they must meet to join the club, which began as a four-nation grouping in 2006 and which Canada joined in 2016. As chair, Canada can help move the global economy back along a path toward a more open, rules-based trading system.

Efforts to renew existing global institutions to better reflect current economic realities are important. They are key to promoting the benefits of trade and investment among economies. Nurturing new institutions such as the CPTPP and promoting broad membership are effective ways to counter global economic fragmentation caused by the rapid rise in tariffs, restrictions and beggar-thy-neighbour policies of the past few years.

A "next generation" trade agreement, the CPTPP takes World Trade Organization rules a step further in key areas such as electronic commerce, intellectual property and state-owned enterprises, and its expansion would help strengthen global trade rules, deepen economic co-operation on trade and sustain an open global trading system.

The benefits for Canada specifically are further export-market diversification and greater ties with the fast-expanding markets of the Indo-Pacific region. Further, helping today's global economy is a key opportunity that will carry over when Canada welcomes the G7 summit in 2025.

Bottom line: Broadening the CPTPP offers the prospect of strengthening global governance and addressing common economic challenges for members and for the global economy writ large, while expanding Canada's markets.

Notably, a half-dozen countries have applied to join the CPTPP. One of which is China, whose entry would boost global GDP by \$600-billion annually, representing an increase in global incomes of more than 0.5 percent.

However, there's a catch. The challenge for both Canada and subsequent commission chairs is to ensure that China agrees to meet the standards members have maintained so far.

This high bar includes elimination or substantial reduction of tariffs and other trade barriers; strong commitments to open markets; abiding by strict rules and protections for foreign companies; and operating within, as well as helping to promote, a predictable, comprehensive framework in digital trade flows.

For accession, China would need to demonstrate that a socialist market economy can be consistent with fair trade. Taiwan's separate application presents a particular challenge, but since both are members of other organizations such as APEC, not insuperable.

If the US were to also join the CPTPP – Donald Trump vetoed its pending membership upon arriving in the White House in 2017 – it would gain from preferential access to growing Pacific Rim markets, China's services sector in particular. But it would also need to step well back from its current mercantilist mindset, which risks becoming worse. So, Chinese and American membership are best viewed as long-term goals.

Other nations, meanwhile, are better immediate candidates and one of the most important goals for Canada's chairmanship should be to clarify the rules of accession, which would be a big step forward in sustaining the CPTPP's expansion.

Canada should help promote and accelerate the inclusion of Costa Rica, Uruguay, Ecuador, and Ukraine, all of which have applied to the CPTPP. And it should help speed talks with South Korea, Indonesia, Philippines and Thailand, countries that have all expressed interest in joining.

In sum, as chair, Canada should champion discussion and understanding of the long-run goal of broad accession to the CPTPP.

Open and inclusive institutions are at the core of ensuring each economy can benefit from global economic integration, and the CPTPP is a landmark on the way forward.

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