

Trump and Trade: Implications for Canada's Agri-Food Sector



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United States (US) president-elect Donald Trump has announced that the US will not ratify the Trans-Pacific Partnership (TPP), the largest and most ambitious regional trade agreement (RTA) ever. By terminating US involvement in TPP, which began during the presidency of fellow republican G.W. Bush in 2008, Mr. Trump will be preventing the TPP's implementation because the latter requires ratification by at least six countries accounting for 85% of the twelve signatories' Gross Domestic Products (GDPs). Canada and the US currently have RTAs with some of the TPP countries like Mexico, Chile, and Peru,¹ but the TPP was a means to catch up on Asian integration and in the process secure closer economic ties with Japan. In 2015, Japan was the third largest importer of Canadian crops and manufactured foods. The scope of TPP is wide, with many provisions beyond import tariffs, notably on labor and environmental regulations. This should have made the TPP politically more palatable.

Countries, especially large ones, have incentives to make trade policy adjustments to manipulate world prices in response to market shocks at the expense of their trade partners. Small open economies are especially vulnerable because their national income is more sensitive to trade disruptions and their retaliatory

capacity is limited. The opportunistic behavior of large importing countries can be anticipated by small countries that in turn reduce their production of exportable products. The net result is smaller gains from trade for small and large countries. To preclude this sort of vicious circle, large and small countries must credibly commit not to behave opportunistically. This is where the WTO and RTAs come to play.

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The purpose of trade agreements is to make the trading environment stable and predictable through a set of rules and dispute settlement mechanisms to prevent opportunism.

Mr. Trump has made a fortune by being opportunistic and likens imports to job killers. Campaign rhetoric often gives way to a wiser discourse once a politician takes office, but since the rural vote played a major role in Mr. Trump's election, it is conceivable that his administration will be receptive to protectionist demands by US farm lobbyists.

1 The US also has trade agreements with other TPP countries, Australia and Singapore. Canada and the US also have trade agreements with Korea, Columbia, Panama, Israel and Jordan.



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How far can the US go along this path? As long as the US is a WTO member, it must make good on its WTO commitments. The US average applied tariff on agricultural goods is 5.5% and over 75% of applied ag tariff lines are below 5%. If NAFTA renegotiations were to occur and fail, Canadian exporters would not be facing very high tariffs. However, for many agricultural and food products, it is the non-tariff trade barriers (NTBs) that are most restrictive. NAFTA's non-tariff provisions encouraged market integration and significantly boosted trade in meat products. Currently, the US is free to adopt domestic measures that are in its interests, even if such measures tend to segment markets, provided that they do not fall out of compliance with WTO and NAFTA commitments, in which case Canada can seek redress through the dispute mechanisms of the WTO or NAFTA. However, challenges take time and success does not always translate into regulatory or policy changes. For example, Canada's challenge of the US law on Country of Origin Labelling began in 2009 and the law was repealed by the US Congress only at the end of 2015. In some instances, large offending countries prefer to be sanctioned with retaliatory tariffs than budge. Eventually, a "compensation" of some sort is negotiated (e.g., EU-Canada dispute over growth hormones).

"A stronger US dollar makes US imports cheaper."

It is not only Mr. Trump's skepticism toward the fairness of trade rules that could impact Canada, but also his fiscal policy. If government expenditures in the US are to increase as much as Mr. Trump promised, the interest rate differential between the US and Canada could widen further and the Canadian dollar could lose more ground vis-à-vis the US dollar. In the weeks that

followed the US election, the US dollar soared with respect to a basket of rich country currencies. A stronger US dollar makes US imports cheaper. The increased competition from foreign firms, including Canadian exporters, makes it more difficult for US farmers and food processors to maintain their market share at home. The strong US dollar during the Reagan years fueled protectionism and if the US dollar continues to be strong it would not be surprising to see US farm lobbies pursuing trade remedies like safeguard, countervailing and antidumping actions. The WTO allows its members to resort to such actions to provide temporary protection to their domestic industries. These actions can cause large changes in import shares between exporters and in the overall level of trade.

To the extent that there are still free-traders amongst Republicans in the US Congress and Senate, the rejection of the TPP could be the prelude of a succession of US bilateral RTAs with TPP countries. This might occur sooner than later especially if China, India and seven TPP countries quickly complete the negotiations of the 16-country Regional Comprehensive Economic Partnership. The TPP might be dead, but many of its provisions could be inserted in new RTAs and in revisited ones. If the US decided to pursue a smaller TPP, concessions made during the TPP negotiations would be the starting point of the new negotiations. The reprieve for supply-managed sectors in Canada could be short if Mr. Trump decides to put in place a "Trump" agreement with a small subset of TPP countries including Japan to score political points at home and abroad.

Finally, the demise of the TPP is a setback even though some Canadian exporters are possibly rejoicing over the fact that fewer countries will have preferential treatment to the US market. These firms are probably hoping to benefit from US protectionist measures aimed at Canadian competitors in the US market.

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