Submission from Unifor to Global Affairs Canada's consultation on a possible Canada-China Free Trade Agreement

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Unifor welcomes the opportunity to submit its written views[i] to Global Affairs Canada on a potential free trade agreement between Canada and the People's Republic of China. Unifor is Canada's largest labour union in the private sector, representing more than 310,000 members in every major sector of the economy. Approximately two-thirds of Unifor members work in tradeable goods industries, many of whom are affected by Canada's international trade relations.

In Unifor's view, there is a need to explore ways of enhancing and improving Canada's trade relations with nations around the world. We believe that any efforts to deepen trade relations must be guided by fundamental, development-based principles and that seek to achieve mutually beneficial economic and social outcomes.

The federal government has made public its desire to promote Canada's "progressive trade agenda" (although what exactly such an agenda entails remains unclear) as a function of expanding Canada's Free Trade Agreements (FTAs)[ii]. Our union remains skeptical that the current template for FTAs is at all conducive to the principled and progressive forms of trade that Unifor envisions, and that Canadian workers desire. Further, we remain skeptical that Canada can establish a model of "progressive trade" with China under a formal FTA, and that any such FTA will yield positive outcomes for the Canadian economy.

For these reasons, and those laid out below, we believe Canada should not launch formal negotiations for a FTA with China at this stage. We believe that Canada should exercise extreme caution in such an endeavor. Canada should also undertake rigorous, independent analysis of a potential accord before launching formal talks, including a proper assessment of the impact a deal could have on jobs, and must consider a full suite of alternative options that aim to enhance fair trade, outside of the standard FTA model. Additionally, we believe the Government of Canada must aim to clearly establish – through consultation – the fundamental values that underline its "progressive trade agenda", and communicate this to potential trade partners, including the China.

Unifor trade principles

Unifor recognizes the important role that international trade plays in the domestic economy. Canada's exports are valued at more than half a trillion dollars, annually.[iii] According to World Bank national accounts data, Canadian exports of goods and services represent 32 per cent of our total GDP, which signals a degree of trade dependency that is higher than the OECD average. At the same time, our union acknowledges that domestically driven, demand-side economic growth is of equal importance for ongoing job creation and sustainable economic development in Canada.

It is our view that trade relations must operate within a framework of good job creation, the mutual economic benefit of all parties, guided by environmental stewardship and democratic decision-making, among other principles[iv].

Disparities in approach to economic development

In many respects, China is unlike any country with which Canada has explored an FTA. China is the most populous nation in the world, with more than 1.3 billion inhabitants.[v] Its economic output (measured by gross domestic product) is more than seven times larger than Canada's.

China's economic development model, according to Poon (2006), has been "characterized by "gradual dual-track policies where the state initially planned production in place at fixed prices, while simultaneously allowing above-plan production to be sold at market prices."[vi] Active state industrial planning, marked by profit-led investment, export-led growth and industrial policy[vii], has guided China's torrid pace of economic expansion since the mid-20th century, making it a primary driver of global economic growth.[viii]

Central state planning and tight foreign investment controls have featured prominently in China's economic development over time, with the ultimate objective of "fostering domestic capabilities"[ix] as well as meeting growing domestic demand. This is true in industrial sectors identified as strategic to the national interest, including the auto industry.[x] China's economy continues to evolve alongside an active industrial strategy that explores advanced manufacturing technologies and industrial upgrading (e.g. China's Manufacturing 2025 strategy) in addition to innovative financial policies and services provided to firms (e.g. Government Guidance Funds, or GGFs).[xi]

China's highly active central economic planning model is unlike Canada's own. There is ongoing debate as to whether China should be granted full Market Economy Status (MES) under the aegis of the World Trade Organization (WTO) (some nations, notably Australia, have granted China MES in the context of bilateral trade treaties already)[xii]. Granting such status, for which China has applied, threatens to limit the effectiveness of trade remedy cases initiated by Canada, guarding against the dumping of artificially low-priced Chinese imports, often due to China's excess production capacity and price controls.[xiii]

Imbalanced trade

China is certainly an important trading partner for Canada. In terms of total export trade value, China is Canada's second largest export destination (although still well behind the United States) and a source of significant export potential for Canadian goods and services. Chinese imports also represent an increasing share of overall foreign imports into Canada, growing from just over two per cent to 12 per cent between 1997 and 2016[xiv].

Given the contrasting economic development models employed by our two countries (as outlined above), it is not surprising that Canada's merchandise trade relationship with China is hugely lopsided.

In 2016, our bilateral trade deficit with China was valued at $43 billion. In fact, Canada's trade deficit with China is the largest bilateral deficit we have with any single foreign country (Mexico is the next largest) and represents three-quarters of our world-wide current account deficit[xv]. Former Unifor economist Jim Stanford has argued that this bloated trade deficit equates to approximately 125,000 manufacturing jobs lost in Canada.[xvi]

Since 2012, Canada's exports to China have grown modestly (around two per cent annually) whereas Chinese imports have continued to skyrocket from $51 billion to $64 billion. Put another way, our total trade with China over the past three years has grown by $15 billion. Unfortunately, 90 per cent of it is a result of more Chinese imports.[xvii]

Exactly how Canada's trade flows will be impacted by a bilateral FTA with China is difficult to predict, although intuitively the blanket removal of tariffs on goods would tend to exacerbate existing trade flows, rather than reverse them. The outcomes of Canada's recent FTA with South Korea (implemented in 2014) might provide a helpful viewpoint in determining how trade flows would be impacted, as both Korea and China maintain active industrial and export-led economic strategies.

Since its implementation, growth in Korean merchandise trade imports has far outpaced Canadian exports. In the last two years, Korean imports have grown by 47 per cent, while Canadian exports have grown by just 5 per cent. In fact, Korea has shipped an additional $3.2 billion worth of manufacturing goods into Canada since the deal, while Canada has shipped back just $200 million – exacerbating an already unfavourable trade imbalance.

Surprisingly, Canada's auto exports to Korea have grown since the deal was implemented (largely because vehicle exports have grown, while auto parts exports have fallen). However, Canada's total auto exports to Korea remain miniscule. Auto exports have grown by just $13 million since 2015 – whereas Korean imports have increased by $400 million – maintaining the existing one-way flow of auto trade.

An already positive trade trajectory

Although these overall trade imbalances are worrisome, it's important not to overlook the fact that Canada's merchandise trade growth with China has trended in a generally positive direction over the past decade. The year-to-year growth trajectory in both exports and imports reflects positive trends for Canada. In fact, despite the large imbalance in total trade values, average annual growth in exports from Canada to China since 2006 is 10 per cent[xviii]. This amount is far higher than Canada's annual export growth rate for the rest of the world (approximately 1.4 per cent, per year since 2006). Conversely, imports from China have grown at an average annual rate of 6 per cent, more than double the rate of import growth from other trading partners.

In regards to the auto sector, trade in finished vehicles tilts in Canada's favour, largely as a result of growing consumer demand for passenger cars in China – the largest auto sales market in the world.[xix] Trade in auto parts is an entirely different story, and reflects the explosive growth of low-cost parts production used to meet the needs of growing domestic suppliers as well as for export to other auto-producing nations in the Asia-Pacific region and, increasingly, North America. In 2015, Canada imported $2.3 billion in parts from China – an increase of 137 per cent over the past decade, dwarfing our exports ($124 million).

Of primary concern for Canadian auto workers is the growth in China's capacity to produce finished vehicles for the North American market. Global auto makers (in partnership with Chinses firms) have historically located production in the China to meet the demands of a fast-growing consumer market.[xx] Recent trends suggest that this strategy is expanding to include a focus on production for export markets, specifically North America. Chinese auto-makers SAIC Motor Corp (which has set up joint ventures with General Motors and Volkswagen and has begun exporting the Chinese-assembled Buick Envision to North American for the first time in 2016) and Guangzhou Automobile Group Co. (in partnership with Fiat Chrysler) both have publicly stated their strategic intent to export finished vehicles to North America in the near term.[xxi]

For Canada, the prospect of negotiating a standard FTA that seeks only to expand market access, including for autos, without specific restrictions, protections or expectations of balanced outcomes and mutual investment commitments would exacerbate an already threatening situation. Industry representatives have already raised alarm over this and urged the government to treat carefully.[xxii]

China's labour and human rights record

Canada, like all nations, must continually self-reflect on its own practices, recognizing both its successes and failures with respect to the ongoing advancement of universal human rights.

China's dismal human rights record is well documented and must be taken into critical consideration as exploratory FTA talks continue to unfold.

There is no shortage of international assessments, rankings, case studies and news reports highlighting China's curtailment of basic universal freedoms, including the freedom of religion, association and expression[xxiii]. A 2016 report published through China Labour Watch, a non-profit organization, is only the latest to outline egregious labour violations taking place at a supplier factory of two major North American retailers with operations in Canada, Walmart and Home Depot, citing incidents of illegal pay deductions, forced overtime as well as health and safety violations.[xxiv]

Despite its status as a founding member of the International Labour Organization, China has not yet ratified four of the eight core labour conventions, including Conventions 29 (force labour), 87 (freedom of association), 98 (right to organize and collective bargaining) and 106 (child labour). China further maintains that it is not bound by the conventions it has not ratified, despite being a signatory to the 1998 Declaration on Fundamental Principles and Right at Work.[xxv] If the Canadian government is at all serious about promoting a "progressive trade agenda," requirements to acknowledge, uphold and actively enforce basic labour rights must be included in any future trade facilitation measure it undertakes.

There is also concern that further liberalizing trade and investment relations with China will continue to undermine the conditions of work for Canadians. A 2013 U.S. study authored by Autor, Dorn and Hanson examined the effect of China's import competition on local labour markets, resulting in higher unemployment, lower wages and lower labour market participation.[xxvi] The experience of economic restructuring and deindustrialization in recent decades is markedly similar between Canada and the United States (both have faced significant manufacturing job losses since the turn of the century, for instance), and it is plausible that a Canada FTA with China could further expose workers to such outcomes.

Recommendations

Unifor is generally concerned that, within the confines of a FTA negotiation, Canada will not be in a position to strike a balanced trade arrangement with China that benefits our total economy. China's strategic and state-managed industrial planning approach is far removed from Canada's own market-oriented strategy. If the Canada-Korea FTA offers an example, the standard template Canadian FTA, focused mainly on seeking greater market access for goods and services through reciprocal tariff elimination, it will only exacerbate negative trade flows.

It is our view that enhancing a trading relationship with China doesn't necessarily mean we have to sign a comprehensive FTA. In fact, as explained above, Canada's trade growth with

China far outpaces trade growth with the rest of the world – and that has so far been facilitated outside of a standard FTA model.

It would be wise to assess those successful elements of the Chinese economic model, and contemplate the construction of Canada's own national industrial strategy, that is equally as focused on inbound investment and ongoing export-led growth (particularly in high value added, high-technology goods and services). Strategically speaking, such an approach would be warranted and would then set a more targeted course on international trade strategy. The alternative, in trade negotiations with China or other East Asian economy, would have us negotiate from a position of weakness.

As Canada continues to explore trade enhancing initiatives with China, policy advisors must chart a course that works in Canada's favour (and to the benefit of working people) – and such a course may take us beyond a standard FTA. Perhaps such an alternative bilateral strategy could focus on strategic economic sectors for enhanced cooperation that support the mutual interests of both parties.

Such an approach would synchronize well with existing research on bilateral economic complementarities between Canada and China. One of the preliminary steps undertaken in this consultation process was the completion of a Complementarities Study conducted by the Canada-China Economic Partnership Working Group approximately five years ago. This study identified seven specific industries that reflected "cross-cutting economic and political" priority for our nations, including in clean technology, machinery and equipment and transportation infrastructure. It also outlined various, existing, cooperative measures as well as ongoing bilateral challenges and barriers to growth – a useful starting point for such a sector-based cooperative arrangement.

As expressed to Global Affairs Canada staff in previous consultations, we believe the federal government must conduct thorough and independent economic, environmental, gender and human rights impact assessments, before any formal bilateral negotiations toward a trade enhancement strategy begin. Such studies must be based on sophisticated modelling techniques that explore employment and income effects. These studies must also inform a broad and inclusive national public consultation that includes an assessment of various options for trade enhancement.

Finally, it is our view that any extended trade arrangements between Canada and China must be conditional on achieving specific social justice and fair trade goals, including strong and enforceable labour and human rights standards, environmental standards, and engagement with First Nations.

ENDNOTES

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[i] Unifor representatives were invited to participate in two additional in-person consultation meetings on October 6, 2016 and May 26, 2017 with government officials, including representatives of Global Affairs Canada and Employment and Social Development Canada (ESDC). Unifor representatives also attended a consultation event on Canada-China free trade hosted by the Canadian Labour Congress on May 31, 2017.
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[v] Factsheet: Canada and China, http://www.international.gc.ca/trade-commerce/consultations/china-chine/canada_china_fact_sheet-chine_fiche_information.aspx?lang=eng
[vi] Poon, Daniel (2006); Understanding East Asian Industrial Success: Implications for Canadian Trade & Development Policy; published by CAW-Canada; pp. 47
[vii] Kozul-Wright, Richard and Poon, Daniel (2017); "Learning from China's Industrial Strategy," published in Project-Syndicate.org: https://www.project-syndicate.org/commentary/china-industrial-strategy-lessons-by-richard-kozul-wright-and-daniel-poon-2017-04
[viii] http://www.oecd.org/china/china-time-to-focus-on-financial-risks-and-structural-reform.htm
[ix] Poon, Daniel (2006); pp. 48
[x] Tang, Rachel (2012). China's Auto Sector Development and Policies: Issues and Implications, Congressional Research Service. https://www.hsdl.org/?view&did=718658
[xi] Kozul-Wright, Richard and Poon, Daniel (2017).
[xii] "Is China a Market Economy?" published in Global Trade magazine, October 20, 2016: http://www.globaltrademag.com/global-trade-daily/china-market-economy
[xiii] "As China Extols Open Markets, Price Controls Sprout Back Home," by Nathaniel Taplin, published in Wall Street Journal (January 25, 2017): https://www.wsj.com/articles/as-china-extols-open-markets-price-controls-sprout-back-home-1485351983
[xiv] Trade Data Online, Industry Canada (accessed June 2, 2017).
[xv] Stanford, Jim (2016); "The Stylized facts about Canada-China Trade," published in Progressive Economics Forum: http://www.progressive-economics.ca/2016/08/29/the-stylized-facts-of-canada-china-trade/
[xvi] Ibid
[xvii] Unifor Research, based on Trade Data Online, Industry Canada (accessed June 2, 2017). Note: calculations reflect compound annual growth in trade volumes between 2006 and 2016.
[xviii] Unifor Research, based on Trade Data Online, Industry Canada (accessed June 2, 2017)
[xix] Perkowski, Jack (2016); "Auto Sales In China Soar, Thanks In Part To A Tax Cut," published in Forbes: https://www.forbes.com/sites/jackperkowski/2016/11/08/auto-sales-in-china-soar-thanks-in-part-to-a-tax-cut/#1a6ba79d5232
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[xxiii] For example, see: Freedom House (2017), Freedom in the World report (Table of Country Scores: https://freedomhouse.org/report/fiw-2017-table-country-scores)
[xxiv] China Labour Watch (2016), "Labor Rights Violations in Walmart and Home Depot's Supplier Factory": http://www.chinalaborwatch.org/report/123

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