FINANCIAL POST

'Canada should be worried': Canadian exporters may become collateral damage of U.S-China trade deal

Naomi Powell

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The signing of a "Phase One" U.S.-China trade deal this week is expected to create a brief respite from uncertainty for the global economy — but that's unlikely to last as long as President Donald Trump is in the White House, analysts say.

What's more, Canadian exporters could become collateral damage of a deal that will see China commit to purchasing vast amounts of U.S. agricultural products and other goods.

Top officials are slated to sign the pact in Washington on Wednesday following two years of trade strife in which the U.S. slapped tariffs on nearly two-thirds of Chinese imports and Beijing targeted more than half of all goods purchased from the U.S.

Though the official text of the deal has yet to be released, U.S. Trade Representative Robert Lighthizer has said China will purchase an additional US$200 billion in American goods over the next two years, including US$40 to US$50 billion in agricultural products.

The upending of trade flows as a result of such a commitment could create painful headaches for Canadian agricultural producers.

"The reason Canada should be worried about this is what is China actually agreeing to do?" said Chad Bown, a senior fellow at the Peterson Institute for International Economics in Washington. "Are they agreeing to open their market for everybody? Or are they agreeing to reorient their purchases away from everybody else and toward American purchases? That matters."

Indeed, Canadian canola producers are already experiencing the chill of lost sales to the powerful Chinese market — which once accepted 40 per cent of their exports — after Beijing blocked all purchases of the oilseed. Though officials cited pest concerns, the move was widely viewed as retaliation for the arrest of Huawei executive Meng Wanzhou in Vancouver on a U.S. extradition request. Meantime, Canadian soybean producers, having experienced a brief but dramatic spike in sales after China placed tariffs on U.S. beans, also saw sales to the superpower bottom out after the Wanzhou arrest.

"If China is going to buy northern hemisphere soybeans from the U.S. only, well we're the only other producer in the northern hemisphere," sad Ron Davidson, executive director of Soy Canada. "We've been on the front lines of this from the beginning and we continue to be. So yes we're worried."

Though Lighthizer has said the pact will be compliant with World Trade Organization rules, the Chinese purchasing commitments have also raised concerns about discrimination against some markets in favour of the U.S. The WTO's "most favoured nation" rule requires all trading partners to be treated equally unless a full free trade agreement is forged. The U.S.-China deal covers only a limited range of goods.

"It does seem like it undermines the fundamental principles of non-discrimination if it were to work the way the U.S. describes it," said Simon Lester, a trade policy analyst at Washington's Cato Institute. "If China is going to stop purchasing from Canada, for instance, and purchase from the U.S. instead, then Canada probably has a WTO complaint because China's measures are discriminating in favour of the U.S.

"So it's puzzling to understand how it would work in practice."

A range of recent developments — the U.S.-China deal, the approval of the new NAFTA by the U.S. Congress and a conclusive December election that has put the United Kingdom on a path to leave the European Union at month's end — would all seem to point to a decline in trade uncertainty over the next two years, said Brett House, deputy Chief economist at the Bank of Nova Scotia. The White House is also expected to remove China from a list of countries considered currency manipulators.

But with Trump in power, House isn't so sure.

"We think rather than declining it's simply been capped," House said. "That's because Trump measures his performance on two major things: how the Dow is doing or equities more broadly, and what the trade deficit looks like."

Persistent strength in the U.S. dollar has made imports cheap while fiscal deficits are the highest since 2012, House noted.

"Those factors will continue to lead to trade deficits in the U.S. that are as big or bigger than they have been, which means he'll keep coming back to protectionism and tariff threats," said House.

In addition, the conclusion of trade deals hasn't prevented Trump from threatening tariffs on his trading partners. For instance, in May, as Mexico was preparing to pass the newly agreed NAFTA in its Senate, Trump threatened to impose tariffs on all Mexican imports if it didn't stem the flow of migrants over its border.

With the China deal somewhat settled for now — Phase One is also expected to include measures on forced technology transfers and intellectual property, while a Phase Two negotiation will tackle the gnarly issues of subsidies and state-owned enterprises — new worries are emerging about an escalation of trade tensions with Europe. The U.S. has threatened to impose tariffs on US$2.4 billion of French goods over a digital services tax it says unfairly targets U.S. companies. And a transatlantic dispute continues over aircraft subsidies.

With an upcoming election campaign, Trump may opt to limit the U.S.'s gripes with Europe to those two issues. Newly minted EU Trade Commissioner Phil Hogan will also be in Washington for a visit this week.

"There is something to the idea that Trump is worried about markets and it is an election year," said Bown of the Peterson Institute. "But at the same time both as a candidate and a policy maker, his approach has been one of confrontation, so I’m not sure he knows any other way. I find it difficult to fathom that he’ll just sit on his hands between now and November.”