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Get China trade deal before signing TPP

By Barrie McKenna

Joint report highlights lucrative potential gains with freer trade between Canada and Asian superpower

There's been a lot of chatter this year about Canada and the promise of the Trans-Pacific Partnership trade deal.

But there's a good case to made that Ottawa could make quicker and more lucrative trade gains by doing a deal first with China, its No. 2 trading partner behind the U.S.

The TPP talks now include 11 countries, following a move earlier this year letting Canada and Mexico join negotiations. But the breadth of the membership, combined with the looming U.S. elections, means progress will be plodingly slow in the short term. And China isn't part of the deal.

A joint Canadian and Chinese government economic study released Wednesday identifies the potential gains from deeper trade and investment ties, along with the many roadblocks.

Trade Minister Ed Fast said the study "highlights the potential to increase the prosperity of Canadians and Chinese alike through appropriate bilateral instruments."

The report identifies seven broad sectors where the two governments see potential for significant gains via freer trade and investment: Agriculture and agrifood, clean technology, machinery, natural resources, services, textiles and transportation (including aerospace).

Events are also pushing the Canada-China agenda, including this summer's $15.1-billion (U.S.) bid by CNOOC Ltd., a Chinese government-controlled company, to buy Calgary-based oil producer Nexen Inc.

China is clearly pushing the investment envelope, making it all the more important for Ottawa to set some clear ground rules with China. Right now, it's not at all clear what's for sale, what's out of bounds and where there's room to liberalize.

The study acknowledges both sides aren't satisfied with the current investment regime in the resource sector. "Canadian and Chinese stakeholders have highlighted the need for increased regulatory clarity, efficiency and predictability in the context of direct investments in each other's countries . . . Resolution of these obstacles will be essential to improving market access and facilitating two-way trade and investment in the natural resources sector," according to the report.

The study is also fairly realistic about the challenges facing Canadian companies in China, where significant tariff, investment and other barriers remain. Aircraft maker Bombardier Inc., for example, faces tariffs on planes and parts, and rules that limit participation in major aerospace development programs. And the study details countless others.

Canada is also running a fairly sizeable merchandise trade deficit with China as the relationship grows. In 2011, for example, Canada exported $17-billion worth of goods to China, while importing nearly $50-billion, according to Canadian trade figures.

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