Putting too many eggs in Europe's basket

By Derek Burney and Fen Hampson | Feb 4, 2013 8:59 pm | | 0 Comments

The continuing mediocre performance of the U.S. economy, as reflected in the latest weak fourth quarter GDP numbers, defy rumours of a private sector rebound. It's another wakeup call for Ottawa.

It is still too early to know whether these numbers foretell the start of another recession or are simply potholes suggesting a long-term trend of slow economic growth.

Although stock markets are breathing a sigh of relief that the U.S. didn't tumble over the much-hyped fiscal cliff or default on its loans, an inconvenient truth remains: the U.S. still isn't fixing its major structural problems.

Program spending for Medicare, Medicaid, Social Security, Obamacare and defence are still running too high and the U.S. government continues to borrow roughly a quarter of what it spends. Democrats are reluctant to cut entitlement programs and Republicans refuse to raise taxes significantly enough to increase revenues.

The sorry state of the union and the uncertain outlook for the U.S. economy should be a real worry for Canadians — as our own trade figures languish and our prosperity is threatened even further by our inflated housing market, excessive consumer debt and a worsening balance of payments.

The inescapable fact is that growth is lagging in both of Canada's traditional trade markets — the U.S. and Europe, which constitute the lion's share of our global trade — and we are not making up for it with a determined push into faster-growing emerging markets.

The CETA negotiations — which, again, seem to be on the verge of conclusion and are the government's centerpiece on trade — are sources of worry for two reasons. First, apart from Germany, the EU economies are so completely mired that one wonders how much growth the deal can generate for Canada. And second, while some voices (including some former trade ministers) have been heard expressing support, few Canadian stakeholders have stated clearly why the deal would be good for Canada.

How much of our trade with Europe is subject to tariffs? Not much. CETA won't be a game-changer on tariffs even if we clinch a deal. How will the EU's often capricious non-tariff barriers be addressed in the negotiation? What Canadian sectors can expected to win? How will investment be improved? These are questions begging for answers.

On CETA, we've seen more evidence of what we would give up — especially on supply management, patent protection and government procurement, thanks in part to the leaked EU report — than what we would get back. Without credible and highly visible support from those who stand to benefit from the deal, the government is going to have a hard time convincing Canadians. "Without public sentiment, nothing can succeed," said the wise Abe Lincoln, who is much in vogue these days.

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CETA was motivated more by political concerns — satisfying Quebec under Charest — than by economic objectives. This is also why the provinces are "fully involved", a tragic misstep from which the federal government may not recover as it begins to negotiate free trade agreements with the emerging economies of Asia, where the real action is. Ironically, it now appears that the new Quebec premier may not be on side with CETA.

It is hypocritical for provinces to demand seats at the table for

trade negotiations and then, when their policies run counter to fundamental trade principles — as in the case of Ontario's flawed Feed in Tariff (FIT) scheme or Newfoundland's confiscation of AbitibiBowater assets — leave the federal government picking up the tab. This is feckless federalism. When provincial policies contravene global trade disciplines, a responsible government should be obliged to pay for its own mistakes.

In any event, all of the attention to CETA regrettably distracts our trade focus from where it should be, where most of the growth continues to happen — in Asia and the world's emerging markets.

We're now living in a world of competitive currency devaluations as nations — especially the juggernauts of Asia — manipulate their currencies to stay competitive. That is where the Japanese are headed under Prime Minister Shinzo Abe's new government. It's also what the Chinese have been doing for years with their capital controls. The U.S. plays the same game through repeated rounds of quantitative easing.

One piece of good news: with the rise of the middle class in China and other emerging markets, the effects of greater consumer spending on commodity prices ultimately will be inflationary.

But Canada won't reap the full benefits because, at the moment, we can only sell our energy — our biggest and most important commodity — to the United States. We are losing GDP daily because we can't get our oil to other markets and, worse still, we are subsidizing Americans who don't pay the full cost for our oil.

Upgrading our infrastructure to enable greater diversification of energy exports should be the federal government's top national priority. That includes oil and gas pipelines to the east and/or west coasts, roads, ports and refineries or upgraders. This is where the provinces could and should play a constructive role. Otherwise, they have no legitimate claim for direct involvement in trade negotiations, which are in any sense one of the clearest constitutional prerogatives of the federal government.

Even with all the blather about energy self-sufficiency, America needs Keystone XL — because Keystone would bring North Dakota (Bakken) oil to Gulf refineries, which is why Democratic senators in border states are supportive.

If B.C. does not agree to the Enbridge pipeline, the federal government should actively support the concept of pipelines going the other way to markets and ports in Quebec and the Maritimes. That would maximize our leverage on crude prices with the Americans, regardless of whether Keystone XL is approved.