



March 9, 2022

2022 CCA Conference

Trade diversity is an economic, social, and national security issue

Canada must significantly recapitalize its trade corridor funding, for long-term, strategic investment in trade-enabling infrastructure, to support our global trade diversification. Diversification of our global trade profile, not dependence on a handful of markets, is a strategy imperative which serves western Canada and Canada's economic growth, social programming & security interests.

That investment strategy includes, promoting the Western Canada Trade Gateway & Corridor Initiative (WCTG&CI) proposed by a coalition of national, regional, and provincial business stakeholders led by the CCA, WCR&HCA and CWF¹.

The coalition is urging the federal government to harness, the indispensable role Western Canada plays, in enabling trade with Asia² and into the North American continent.³ It builds on past successes of trade corridor funding⁴ programs to expand access to global markets thereby growing our economy.

Canadians must also acknowledge that diversifying our global trade profile is important not just to our economic and social welfare, *but equally so*, to our national security interests.

The security interest focus has always existed in the background, but its materiality has risen.

There is a relationship between a strong diversified (trade) economy, and national security. A strong economy enables a respected foreign policy presence, to help advance and protect our security interests.

And national security interests include: the stability and protection of shared values, safety, democratic and human rights, economic, social and political freedoms, the freedom from fear, threat, and conflict.

A strong economy therefore supports national security, which in turn enables a strong economy.

Conversely a weaker economy means fewer resources to protect the national security interests, placing the country and the protection of its values domestically, and abroad, at risk.

We speak about trade diversification and national security, given Canada has not only weathered significant trade challenges, but now faces at least three areas of acute concern.

1st is Biden's focus on *buy America first* which explicitly threatens to undermine our economic prosperity. The US is our largest trading partner.

¹ Canadian Construction Association (CCA); Western Canada Roadbuilders & Heavy Construction Association (WCR&HCA); Canada West Foundation (CWF).

² The Asia market offers the globe's fastest, annual growing middle class: Indonesia (7 million); India (20 million); and China (35 million).

³ Western Canada's access to deep-water ports makes the region indispensable to Canada's trade profile and productivity and, therefore, its economic health and prosperity. Prince Rupert Port seeking to double capacity through the addition of a second container terminal. Further, with Canadian Pacific Railway's pending acquisition of KCS and KCSM, North America is also very much in play for market growth.

⁴ These programs include Asia Pacific Gateway and Corridor Initiative (APGCI); the National Policy Framework for Strategic Gateways and Trade Corridors; the Ontario-Quebec Continental Gateway; and the Atlantic Gateway & Trade Corridor.

2nd China's - *our 2nd largest trading partner* - weaponization of trade, global bullying, reminds Canadians of a salient fact. We can neither be a '*rival*' to China - it is too large an economic and military power - nor '*partner*' - it has diametrically opposed human rights and democratic values. Whatever our continued trade relationship with China, it must transition from *eyes wide shut to eyes wide open*.

And 3rd is Putin's barbaric and unprovoked invasion of Ukraine testing world resolve for a rules-based civilization.

So, what is the issue? Dependence

Let me put this in some context.

1st Canada's economy relies on trade for 65% of its GDP; contrast that with 23% for the United States.

2nd We are overly dependent on two trading partners - the United States and China.

Canada's largest trading partner is the United States⁵:

- 75% of our exports go to US; and
- 50% of our imports are from US.

Historically, we have relied on our friendly relations, the convenient proximity, and direct access to the world's largest economy. But this is changing.

Our 2nd largest trading partner is China:

- 4% of our exports go to China.
- 12% of our imports come from China; and
- China is Canada's fastest-growing trade partner recently increasing 11% annually.

These dependencies left unchecked, leave us vulnerable to the diplomatic relations with the United States and China⁶.

3rd Our foreign policy and international obligations have, and will draw Canada into dispute, potentially to the detriment of trade and therefore our economy.

4th Canada must diversify its trade to alleviate the dependence, vulnerability and thereby protect our economic welfare and national security interests; and

5th Canada cannot allow its pursuit of trade diversification to water down our democratic values, national integrity, and reputation. We must carry the flag in all our global trade relations.

So, what is the risk? Vulnerability

With the United States we see continued protectionism, country of origin labelling, tariffs, bring home our jobs, made in America, tax credits for electric vehicles only if all components are made in America, the infrastructure program with all its components required to be sourced from within the United States.

We saw those sentiments explicitly repeated by President Biden in his March 2nd State of Union Address. That protectionism is not going away, and it **will** impact jobs and investment in Canada and therefore our economic health.

And with China, its human rights abuses, weaponization of trade, and aggressive foreign policy, affect our relations, including trade.

⁵ In 2019 Canada/US conducted \$612 billion in two-way trade of which \$292 B represented Canadian exports.

⁶ As of 2019 our 7 largest trading partners: 1st United States; (European Union (trading block is 2nd largest); 2nd China; 3rd Mexico; 4th Japan; 5th UK; and 6th Germany.

Human rights abuses - including arbitrary detention, forced labour, mistreatment - targeting Uyghur ethnic minorities that required Canada's response, resulted in reprisals. China sentenced Canadian Huseyin Celil to life in prison. And Canadian officials were denied the right to attend the trial.

As Canada respected the terms of an extradition treaty with the United States with the arrest of Meng Wanzhou, China imposed trade sanctions on agricultural products and jailed the two Michaels as hostages.

And China continues to threaten retaliation if Canada bans Huawei from participating in 5G internet network delivery⁷.

So, what is the solution? Diversification

If we accept that a strong economy is not only a means to achieve strong national security but is one of the objectives of pursuing a strong national security, then it follows that we must aggressively pursue global trade diversification.

How?

1. Canada to its credit has negotiated access to broader trade opportunities through a series of international free trade agreements. This approach follows the *'ally-shoring'* practice, of sourcing essential goods and services from countries that share similar values, and a commitment to transparent international trade - a security consideration.

Those include:

The **Canada-UK Trade Agreement** (*Canada-UK Trade Continuity Agreement*) providing continuity, predictability, and stability for trade between Canada and the UK, our 5th largest trading partner.

The **CETA Agreement** (*Canada-European Union Comprehensive Economic and Trade Agreement*) providing preferential access to the EU, one of the largest economies, and Canada's 2nd largest *trading block*.

The **CPTPP** (*Comprehensive and Progressive Agreement for Trans-Pacific Partnership*) providing access to markets to 10 countries: Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

- Of note, it eases further access to Japan⁸, Canada's 4th largest trading partner.

In addition, we must be mindful that **Asia-Pacific** is the world's leading region of economic growth, offering big trade growth opportunities. Key takeaways:

- Fastest annual growing middle class is in Indonesia (7 million) and India (20 million)⁹; and
- This rate of growth exceeds economies' capacities to fill domestic needs, creating new markets.

2. The growing exports to the above markets, **will require** investment in a strong trade gateway and corridor network, to raise the West's and Canada's trade profile in Asia, to expand beyond China; and
3. Canada has opportunities to further expand trade relations with Mexico which is in a similar position. Mexico is Canada's 3rd largest import market. With CP's pending acquisition of KCS and KCSM, North America is also very much in play for market growth.

⁷ While some of Canada's Five Eyes intelligence-sharing allies - US, UK, Australia, New Zealand (Canada) - have made aggressive moves against Huawei, citing concerns that it is an arm of Chinese military intelligence, Canada has stalled on publicly declaring which companies will be permitted to supply equipment to providers of 5G networks.

⁸ Japan is also Canada's largest source of foreign direct investment (\$29.1 billion, 2016) from Asia and sixth largest globally. Japan is also the second longest trading partner for Canada in both exports and imports, second only to the United States.

⁹ China's annual middle class growth rate is 35 million.

CONCLUSION

Let me close by highlighting the most immediate threat, bringing home the linkages between diversified trade to protecting economic and security interests.

It is of course Putin's '1939 moment' invasion, of a free, sovereign, and democratic Ukraine. It is not just a threat to Ukraine, but a defining moment for the West, as a counterbalance to the Russia's menacing 'sphere of influence' expansion.

Germany as an example, is cancelling the \$11 billion Nord Stream 2 pipeline from Russia, from which it imports 60% of its natural gas. To further de-couple from Russia, it will accelerate building two LNG terminals to diversify its domestic supply and accelerate transitioning to clean renewable energy sources¹⁰.

Canada, the world's 5th largest producer of natural gas, currently has *not a single facility* for shipping LNG overseas. Canada cannot therefore expand into this market, nor contribute in this manner to global security. We must address this, and that means building trade corridors to make the proposition possible.

Given the above, Canada must accept, that sustained, strategic, investment in trade gateways & corridors, is pivotal to national self-interest including:

1. A globally recognized, efficient network of trade gateways & corridors.
2. Expanded trade activity and, therefore economic growth.
3. An enhanced global reputation as a reliable trade partner and desirable market in which to invest.
4. Shield our economy from market dependencies and weaponizing of trade by hostile jurisdictions; and finally
5. The protection of national security interests.

In conclusion, I hope I have made the case for why Canada **must act upon this self-interest reality**: *diversifying Canada's global trade profile, through strategic investments in trade gateways and corridors, is important, not just to our economic and social welfare, but equally so, to our national security interests.*

Thank you.



Chris Lorenc B.A., LL.B.,
President,
Manitoba Heavy Construction Association and the
Western Canada Roadbuilders & Heavy Construction Association (WCR&HCA)

WCR&HCA-WCTG&CI 2022/CCA Trade Diversification Panel – Chris Lorenc Speaking Notes FINAL

¹⁰ In addition, Germany has committed use an extraordinary fund of €100 billion to modernize and arm up its military to levels not seen since the peak of the Cold War; and raise military spending to more than 2 per cent of its national economy for the first time.