

# Canada-US frictions flare over Trans Pacific Partnership

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13 August 2015

Canada's Conservative government has been sideswiped by the failure to reach agreement on the Trans Pacific Partnership (TPP)—a proposed US-led economic bloc that would embrace 12 countries on both sides of the Pacific, including Japan, Australia, Vietnam, Mexico, Chile, and Canada.

The Conservatives had hoped to make use of a TPP deal in their campaign for the Oct. 19 federal election, citing it as proof of their ability to secure new markets for Canadian big business.

Even more damaging, from the government's perspective, is that Canadian trade negotiators have repeatedly found themselves at odds with their US counterparts.

According to press reports, Canada's government and business elite are livid over a US-Japanese deal that would undermine Canada's privileged access to the US market under the North American Free Trade Agreement (NAFTA).

The TPP is part of Washington's "pivot to Asia," serving as the economic arm of its concerted drive to isolate China politically, economically and militarily. The 12-nation trade and investment bloc would exclude Beijing, the world's second largest economy. Moreover, the US is seeking to use it to set the rules for the world economy, including those governing investment and intellectual property rights, as well as to limit the reach of China's state-owned corporations.

Canada's participation in the TPP is bound up with its long-standing military-strategic alliance with Washington. Ottawa has closely integrated itself into the Obama administration's pivot to Asia, which will see 60 percent of US military resources redeployed to the Asia-Pacific region. To help play its part in the encirclement of China, Canada signed a secret deal with the US in late 2013 on enhanced military cooperation in the Asian-Pacific. The Canadian Armed Forces are also planning to establish new forward military bases in Singapore and South Korea.

However, significant differences have erupted between Washington and Ottawa over the TPP. Chief among them is the issue of auto imports to the North American market.

To the dismay of Canada and fellow-NAFTA partner Mexico, the Obama administration recently struck a bilateral deal with Japan that would lower the percentage of a vehicle that would have to be built in a TPP country in order for it to avoid tariffs when entering the US market.

Canadian negotiators only learned of the US-Japanese deal when the trade ministers of the TPP countries gathered in Maui, Hawaii at the end of July with a view to finalizing a draft agreement.

Exact details of the US-Japan deal have not been made public. But Japan was reportedly pushing for a minimum TPP content of 30 percent for tariff-free access to the US auto market, while the US is said to have agreed to a minimum of less than 55 percent.

A lower threshold would permit Japanese auto manufacturers to make greater use of auto parts from low-cost manufacturing locations based in countries such as Thailand, which are not involved in the TPP talks.

Currently under NAFTA, 62.5 percent of a vehicle must have been manufactured in a NAFTA country for it to gain tariff-free access to the North American market.

Although US negotiators reassured Tokyo that all TPP partners would be on board with the auto side-deal, both Canada and Mexico were outraged when they learned that the US had negotiated behind their backs. The *Globe and Mail*, Canada's "newspaper of record," is reporting that Ottawa is now trying to forge a common front with Mexico to scuttle the US-Japan deal. It is also trying to rally the support of the Detroit Three automakers.

The dispute could have major implications for the fate of the TPP. Over the past two decades Mexico has emerged as a major producer for the North American auto market—it is now the world's seventh largest car maker—and is determined to increase its share of the US auto market. Canada, meanwhile, fears the further erosion of its largest manufacturing industry.

The US-Japan auto deal was part of an attempt by Washington and Tokyo, far and away the largest TPP partners, to fashion a deal that best serves their respective

interests. No doubt Japan gave way on US demands, including for greater access for US agricultural products, to secure the auto deal. Both countries will now be loath to see this complex negotiation unravel.

The auto dispute has flared up just at the moment US-Japanese relations were frayed by WikiLeaks' publication of documents showing that the US National Security Agency (NSA) has spied on the Japanese government, including the Finance Ministry, and major Japanese corporations. On August 4, US Vice-President Joe Biden telephoned Japanese Prime Minister Shinzo Abe to apologize. According to Abe's spokesman Yoshihide Suga, Japan is now demanding an investigation into the matter.

Canadian big business has rallied round the Conservative government's push back against the US-Japanese deal. "We fully support the government's defence of the (auto) sector's hard-fought gains and continue to applaud its effort to reject country-of-origin thresholds that unduly risk our future prospects in a very globally competitive market," Flavio Volpe, the president of the Automotive Parts Manufacturers' Association, told the *Globe and Mail*.

The Canadian ruling elite has been rattled by the US's indifference to its interests. Complained veteran foreign correspondent Jonathan Manthorpe, "Even in the long catalogue of Washington's acts of duplicity in its business and diplomatic dealings with Ottawa, the United States' betrayal of Canada in the Trans Pacific Partnership negotiations deserves a place on the podium of double-dealing."

Frictions were already mounting in the run-up to the Maui talks, with US political leaders going so far as to suggest that Canada should be dropped from the TPP if it is not ready to provide greater access to its dairy and chicken markets.

Since the 1970s, Canada has operated a supply management system which sets production quotas for dairy and chicken farmers based on the needs of the domestic market, while imposing very high tariffs on foreign imports.

Despite these frictions, the TPP enjoys overwhelming support among Canada's corporate elite. It is anxious to secure greater access to Japan's large market as well as to the resources and large pools of cheap labour in such countries as Vietnam and Malaysia.

At the Maui talks, Canada negotiators indicated that they are ready to make major concessions in respect to agricultural supply management to secure a TPP deal. Speaking in Quebec last week Prime Minister Stephen Harper touted the TPP, saying it will "form the fundamental trading network of the entire Asia-Pacific region."

The opposition New Democratic Party (NDP) and Liberals are in full agreement with the Conservatives on the desirability of the TPP, with any differences confined to the

government's bargaining stance.

NDP leader Thomas Mulcair has reassured business that his party is "enthusiastically in favour" of the TPP. But he says he is concerned that the Conservatives are "weak and vulnerable" because of the upcoming elections and will not aggressively assert "Canadian interests."

In important speeches to gatherings of big business representatives in Montreal and Toronto earlier this year, Mulcair attacked the Conservative government from the right for its supposed failure to stand up for the interests of Canadian corporations abroad. The NDP leader accused the government of sitting "on the sidelines" on issues of foreign investment and trade. "It's time," declared Mulcair, "that Canada's manufacturers had a partner here at home and a champion on the world stage to attract investment and help create export markets. I will be that champion."

Should the NDP emerge victorious from October's election, Washington will have a firm partner in its aggressive drive to isolate China. Since taking over as party leader three years ago, Mulcair has repeatedly criticized the Harper government for being too welcoming of Chinese investment, especially in Canada's energy sector.

Liberal leader Justin Trudeau has similarly extended his support for the TPP. "We've managed to sign large trade deals in the past, from NAFTA to Canada-Europe and others, without having to put supply management into the bargain," he said while campaigning earlier this month. Acknowledging that the TPP was "very important for Canada," he added that "it has to be done right."



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