



OPINION

## To sell free trade with Beijing to Canadians, Trudeau must answer for China shock



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Donald Trump isn't right about trade, but he was partly right about trade with China: It had a disruptive effect on U.S. manufacturing jobs. As Prime Minister Justin Trudeau heads to China this week for a visit centred on the possible launch of free-trade talks, his key challenge is still to convince Canadians it won't lead to another China shock.

China shock is the term used to describe the impact that the rapid rise of Chinese industry had on U.S. manufacturing jobs. Now, there's evidence Canada had a China shock of its own.

In July, a little-noticed economics paper commissioned for Global Affairs Canada and conducted by the Centre for the Study of Living Standards came up with a startling number: Trade with China, it found, was responsible for the loss of 105,000 manufacturing jobs in Canada between 2001 and 2011. That's not proof that trade with China damages the economy, or that free trade will. There can be trade benefits, too. But it is evidence that trade can have disruptive effects on the lives and livelihoods of Canadians.

Mr. Trudeau promised an answer for that. While Mr. Trump rode the grievances about trade to power, responding to the sentiment that elites benefited and ordinary folks suffered by promising a wave of protectionism, Mr. Trudeau said there was another way. Free trade could mean "inclusive growth," he said, and his government has promoted the notion of "progressive trade."

But so far, he hasn't put forward any policies that would really mitigate the impacts of trade on jobs, or found a way to assure Canadians that free trade with China won't bring a shock. No Canadian PM has ever faced the kind of strategic trade conundrum that Mr. Trudeau faces now. Mr. Trump is threatening to blow up the North American free-trade agreement, but Mr. Trudeau just balked at closing the 11-country Trans-Pacific Partnership because it could expose Canada's auto sector to Japanese competition and complicate NAFTA talks. It's natural to try to expand trade with China. But that sparks fear.

China is a big, authoritarian country. Some Canadians don't want a deal with a regime whose values and human-rights record they abhor. They don't want Chinese state influence in Canada, either. But China, already Canada's second-largest trading partner, is not going away. A deal might mean opportunity, if Canada truly can gain guaranteed access to Chinese markets. But Mr. Trudeau will still need to answer the questions about disruption to Canadian jobs.

Economists who were once confident about the unalloyed benefits of trade liberalization are a little less sanguine now. Studies in the United States, led notably by MIT economist David Autor, found Chinese competition not only hurt U.S. manufacturing jobs, it hit hard in many local areas that depended on those jobs. Unemployment rose and wages were depressed, and other jobs didn't replace them. The flood of goods from a rapidly industrializing, low-wage economy wasn't absorbed easily. It was a shock.

In Canada, the study by the Centre for the Study of Living Standards found Chinese competition was responsible for an even greater portion of this country's manufacturing decline – 21 per cent of the drop in Canada's manufacturing sector between 2001 and 2011. Canada lost 508,000 manufacturing jobs in that period, partly owing to things such as automation and a high dollar, but Chinese competition was responsible for one-fifth of the job losses, the study found.

It isn't clear, however, that local labour markets in Canada were damaged as with those in the United States. There was a correlation between areas with industries exposed to Chinese competition and job losses (centred in Quebec and Ontario). But many of those areas are doing well now. In Quebec, some areas have low unemployment rates not seen since the 1970s.

There's another reason the China shock should be less scary now: It's largely in the past. China's low-wage industry exploded in the 1990s and 2000s, but wages have risen there. And a free-trade deal won't make wages in China go down again and won't necessarily cause a new China shock.

That doesn't mean Canadians do not have a reason to fear that jobs might be disrupted. Amid all the other fears about free trade with China, Canadian concerns about jobs here will be the most stubborn. It was Mr. Trudeau who promised inclusive growth and he will have to answer that concern if he is going to sell a deal with China.