

# Europe, Canada and the Comprehensive Economic and Trade Agreement

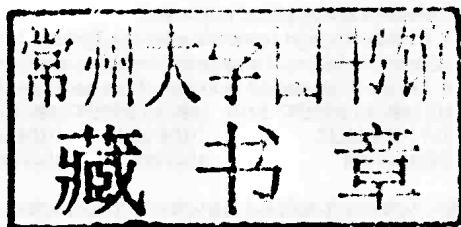
*Edited by*  
**Kurt Hübner**



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# Europe, Canada and the Comprehensive Economic and Trade Agreement

Edited by Kurt Hübner



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# Preface

The examination of a Comprehensive Economic Trade Agreement needs a thorough analytical approach. The concepts in this book reflect this necessity and thus provide chapters that give an in-depth analysis of the various economic and political layers that constitute the political-economic relationship between Canada and the EU. At the time of writing, the negotiations are still ongoing. Despite the overall optimistic tone of both sides of the negotiation table, it is still open whether this political initiative will come to fruition. As a matter of fact, the intrinsic problems of such a far-reaching agreement and the rapidly changing undercurrent of the global economy challenge the overall enterprise in fundamental ways. Rather than postulating a smooth journey towards a new groundbreaking agreement, the various chapters of this book suggest a sometimes wild but nevertheless exciting ride. The financial and economic crisis that started in 2008 and the erosion of the most ambitious project of European integration – the common currency area – are two of the most prominent changes that occurred during the negotiation period. This book is the first that relates those fundamental changes to the project of a Comprehensive Economic Trade Agreement between the European Union and Canada. Should you, dear reader, find the need to have exact anticipatory knowledge on the outcome of the negotiations, you may leave this book on the shelves. However, if you need solid information and cutting-edge insights on an ambitious project like CETA and its challenges you should consider ordering it for your colleagues.

The chapters of the book are modified versions of presentations given at international conferences organized by the Institute for European Studies at the University of British Columbia. Those conferences were made possible due to the generous financial support of the Transatlantic Program of the Federal Republic of Germany, funded by the European Recovery Program (ERP) of the Federal Ministry of Economics and Technology (BMWi). This is in addition to funding from the SSHRC-funded Strategic Knowledge Cluster Canada–Europe Transatlantic Dialogue: Seeking transnational solutions to twenty-first century. Particularly in times of fiscal constraints and ebbing financial resources, this support helped to eventually organize the stimulating and creative meetings and sessions. It should be mentioned that the geographical and political location of Vancouver – far away from Europe and more famous for its political and cultural affiliation

to Asia than to Europe – helped to create an open-minded intellectual atmosphere that we tried to replicate in the book.

Conferences as well as books are products of collective efforts. I would like to thank the terrific staff of the Institute for European Studies (Kerstin Lüttich and Roxana del Rio) as well as our engaged students for their input and time to make all this happen. Special thanks goes to J. Robertson McIlwain who acted as the web and computer wizard, and to Julian Campisi, another wonderful graduate student at the Institute for European Studies, who copy-edited the manuscripts in a masterful manner. Francisco Beltran and Andrew Gertge provided help exactly when needed. Daniel Drache took the time during his stay in India to read the whole manuscript and to provide helpful comments. My apologies for having missed some of the hints. Any mistakes are mine.

Kurt Hübner, Vancouver, August 2010



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# 1 Canada and the EU

## Shaping transatlantic relations in the twenty-first century

*Kurt Hübner*

### Introduction

When Canadian Prime Minister Stephen Harper undertook his first official visit to Europe in June 2007, the global economy was supposedly in good shape. The fiasco of the *New Economy* had passed, and economic growth had returned to almost all corners of the world. The initial climb of the euro exchange rate vis-à-vis the US dollar was widely seen as a sign of international investors' trust in the common currency, and in the promised widening and deepening of European integration in general. Given the stalemate of the Doha round on global trade negotiations, politicians in Canada and Europe saw the opportunity to politically lock-in the promising developments by 'fast-tracking' negotiations on a far-reaching economic agreement. Already in late 2006, the German government, which would hold the rotating presidency of the EU starting in 2007, signaled that it would be interested in supporting efforts for closer economic cooperation with its North American partners. Ironically, at this point in time the positive response did not come from the federal government in Ottawa but from Quebec Premier Jean Charest, who established himself as the strongest proponent for closer economic and political ties with Europe. The project of the Comprehensive Economic and Trade Agreement (CETA) was born. After four years, many draft versions, and four rounds of intense negotiations, both sides are still signaling their willingness to reach a positive conclusion. Such an agreement between two G8 economies would be a first, thus indicating the direction that global political-economic relationships may move in the next couple of years.

The various chapters of this book provide a comprehensive analysis of the endeavor of this planned second-generation agreement. The book argues that the relevance of CETA goes far beyond the agreement itself. A comprehensive economic partnership between the EU and Canada could act as template for further agreements, including an agreement between the US and the EU, and thus move global trade negotiations out of its current standstill. Even though the elimination of tariffs plays a key role in ongoing negotiations, CETA derives its importance from its truly comprehensive agenda that focuses on non-tariff barriers in trade with goods and services, market access and mutual recognition of regulations and standards, the radical opening of public procurement markets, issues of

competition policy and intellectual property rights, tax and investment issues, as well as cooperation in arenas such as the environment and labor standards. An agreement between the largest economic market in the world and an economy that has a coastline along the Atlantic, Arctic and Pacific oceans – and is thus inherently connected to these regions and economies – has the potential to establish rules, practices and institutions that may be emulated by other political actors. Negotiations on CETA are emblematic for political problems to find and eventually establish new forms of global, regional and national forms of economic governance in times of seismic changes in the global economy. It is true that trade negotiations follow their own logic and speed, but in the end it may also be true that ongoing negotiations cannot fade out the implications of far-reaching changes. In the aftermath of the Great Recession, for example, the euro's economic and financial architecture came under siege. Even though the euro may survive as a common currency, the outcome of the changes in the political and economic underpinning of the joint currency may render the EU a less attractive economic space than it was before. This may result in the continuation of the current *under-trading* between the EU and Canada, despite the potentially successful signing and ratification of CETA. In short, the analysis of the CETA project helps one to understand the implications of the economic and political undercurrents that influence the dynamics of the emerging forms of global economic government.

### **CETA, 'spaghetti bowl,' and the reshaping of the global economy**

Economic globalization, past and present, is an uneven process in which not all national economies participate with the same depth and scope. For some time it seemed that globalization would propel the emergence of a small number of regional trading blocs that would structure the long-evolving multilateral world economy alongside the logic of bloc-internal trade (Schott 2008). The formation of the Common Market in the 1980s in Europe and the emergence of a North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico in the 1990s were seen as prototypes of regionalization on a global scale. The formation of trading blocs was accompanied by, and even superseded, a parallel development described with the concept of the spaghetti bowl. The concept stems back to Bhagwati (2007), who argued that the arrival of so many regional trade agreements undermined an efficient multilateral global trading regime. Whether regional trade agreements are effective stumbling or building blocs is not yet decided. This concept is used in a pragmatic way that accepts the breadth of such agreements. According to this view, the global economy and in particular world trade is characterized by the emergence of a vast variety of bilateral and multilateral regimes and relationships that nation states can choose from (Baldwin 2006). Nation states and supranational entities such as the EU are acting on both the regional as well as the bilateral level, and this creates a web of agreements and regulations that surmounts and perforates the previous multilateral

regime. This ambiguous character of the spaghetti bowl indicates that the patchwork of agreements should not be seen as an alternative global mode of economic governance. Rather, it adds to the strategic complexity of the global economy and underlines the notion that national interests still dominate trade policies. Not all nation states participate in this process. As a matter of fact, the long history of the world economy – as well as the more recent history of the second wave of globalization – indicates that in political terms, economic globalization is a highly asymmetrical process. The making of a world economy and globalization comes with strong growth of all sorts of cross-border transactions but only with limited efforts of global political cooperation. This gap was usually bridged, at least partially, by the emergence of a hegemonic power that provided the global public good of stability and economic management. It was the United States that played that role after World War II, and with it came the prominence of the Atlantic economy. Starting in the late 1970s, the US hegemony began to falter, even though the US was still the globally dominant economy, and the production of the global public good became more difficult. New economic powers began to settle, in particular in Asia, leading to the rise of a Pacific economy. The period of a decline in multilateralism starts here.

It would be misleading to view the rise of the Pacific economy as a zero-sum game. The Atlantic economy and transatlantic relations overall may have lost its uncontested poll position, but they still are pivotal elements of the global political economy. The emergence of a Pacific economy since the early 1990s is based on the export-oriented growth models of particularly Southeast Asian economies. Export destinations are markets in North America and Europe that need to be kept open in order to facilitate the export growth strategies. Until the outbreak of the Great Recession this requirement mainly was secured by the US and its strategic interest in capital inflows in order to finance its external deficits. The economic and political rise of China went hand in hand with the economic and political decline of Japan, thus contributing to the already fragile political state of the region, while providing an anchor of stability.<sup>1</sup> Simultaneously, the US experienced a strong period of overstretch and no longer has the economic and financial resources to unilaterally steer the global economy. The EU has never seized the opportunity to become a truly leading global economic actor. As a result, the global political economy is characterized by economic and political divisions that are accompanied by the spread of *soft* modes of governance. This holds in terms of global economic governance, but also in terms of trade relations where one can observe the emergence of a *spaghetti bowl* of treaties and agreements in the last two decades.

Despite the hype of global governance, however, the gap between economic and political globalization has increased in the last couple of years. The financial and economic crisis that started in 2008 uncovered this asymmetry in a brutal manner. Even though some commentators view this crisis as a decisive turning point in the long history of economic globalization, it can still be put into question whether this event finally will lead to the political catch-up to globally embed and underfeed the processes of deepening and broadening of global



markets by political and social means. Still, efforts to launch new forms of international political coordination and even cooperation can be identified. There is the new role of the International Monetary Fund (IMF) as crisis manager for developed market economies; we see the rise of deeper cooperation of central banks; there is the rise of the G20, which soon may overturn the prevailing G8 institution. However, there are also counter-movements. Numerous critical political arenas show strong divisions between main global political and economic actors. Divergent views exist in the arenas of financial regulation and exchange rate policies, while opposing views emerged in global climate policy where the EU's ambitious project suffered a crushing defeat at the Climate Conference in Copenhagen in late 2009. Even in the arena of global trade negotiations, Canada and the EU differ, particularly in regards to agriculture (Charlebois and Boyer 2008). Not all of those conflicts proceed along the lines of Organization for Economic Cooperation and Development (OECD) versus non-OECD economies, nor does it seem that the template of developed and emerging market economies is useful in understanding the fault lines. In all those arenas conflicts and differing views can be easily identified inside the above-mentioned 'blocs.' In other words, the global economy and global polity are undergoing fundamental changes that are no longer captured by static theoretical concepts. Tools such as regional trade agreements, strategic partnerships and economic partnership agreements are increasingly being used to create new alliances that add to the network of political and economic ties between nation states. One of the many early indications that the world of multilateralism has come to a halt was the stall of the Doha Trade Round, which was supposed to provide a further push towards global economic and political integration. The halt of Doha strengthened an already existing tendency towards Regional Trade Agreements (RTAs), which has recently mushroomed to close to 300. Even during the most critical phase of the financial crisis the number of new RTAs increased by 25, including three by Canada, namely with the European Free Trade Association, Colombia, and Peru (Freund and Ornelas 2010).<sup>2</sup>

At a point in time when the financial crisis was more an unfounded prognosis of a small number of critical observers than an economic and political reality, Canada and the EU launched a series of talks in order to begin negotiations about a CETA. At first hindsight, this initiative can be seen as a pure continuation of the paused negotiations about a Trade and Investment Enhancement Agreement (TIEA). Those negotiations started in March 2004 and came to a stop after three rounds in May 2005, officially explained with the argument that both partners wanted to wait until the results of the Doha Round were known. In this regard, the newly initiated negotiations on CETA can be interpreted as an indication that neither the EU nor Canada is actually putting much hope into the eventual success of Doha and move along on a bilateral track. Even though TIEA already was intended to be more than a routine free trade agreement (see Chapter 2), the new round definitely goes further by trying to create genuine bilateral rules and principles, and simultaneously prepare the ground for far-reaching consultation mechanisms for a broad range of transatlantic political and economic