Trade liberalization

Canada doesn't get any sexier than this

A trade pact with Europe points the way to a global market in services

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"WORTHWHILE Canadian Initiative" is the most boring headline in history. So said Michael Kinsley, an American journalist and erstwhile contributor to these pages. The tedious title that inspired this vile slur on a worthy nation appeared above an article in the *New York Times* in 1986 hailing an effort to liberalise trade. Now, Canada is again proving to be a global leader in free trade—and in an exciting way.

On October 18th it announced an agreement in principle with the European Union on a Comprehensive Economic and Trade Agreement (CETA). More than a blessing for insomniacs, CETA is a prototype for bigger things to come, especially the Transatlantic Trade and Investment Partnership (TTIP) now under negotiation between the EU and the United States.

Bilateral trade agreements are bittersweet for those, like this newspaper, who want across-the-world liberalisation. Increases in trade may owe as much to diversion from countries excluded from such agreements as to genuinely new commercial activity. And their negotiation may exhaust political capital that could be better spent on global efforts. A flurry of regional deals now under discussion—which also include a huge transpacific partnership—deliberately exclude big emerging markets like China and India. They could also reduce rich-world interest in completing new global agreements through the World Trade Organisation (WTO).

Yet CETA illustrates how a regional deal can still work. The new pact does more than slash tariffs and raise agricultural quotas (though it does those too). It also takes a crack at liberalising cross-border investment and trade in services in ways that previous trade negotiations have rarely attempted. CETA would open competition for large government contracts in Canada to European firms, and grant Canadians more access to Europe's \$2.6 trillion procurement market. Under the agreement, European takeover bids of up to \$1.4 billion would be treated no less favourably than domestic ones. It would also close gaps in intellectual-property rules and could allow for mutual recognition of some professional certifications, such as those for architects and engineers. The aim is to begin lowering barriers to trade in services just as past agreements removed obstacles to trade in goods: a worthy goal, since services generate about 70% of rich-world GDP.

Today Canada, tomorrow the world

This sort of "deep" integration is more ambitious than anything on the table at the WTO. Other rich countries should use it as a basis for experiments among themselves. If Canada and the EU can agree to a deal on, say, drug approvals or professional certifications, it could become a global standard. Yes, that would mean that international norms would be set on terms advantageous to the rich world. But at least it would give emerging countries clear goals to aim for: bring your accountancy qualifications up to scratch, and we can do a deal.

On its own, CETA is hardly trivial: the European Commission reckons it could boost bilateral trade by 23%, or \$36 billion. But it matters most as a rehearsal for the far bigger TTIP, which will cover similar ground. Together the United States and the EU account for almost half of global output. Sadly, talks are going slowly. Barack Obama flinched at the first sound of cannon fire from French farmers. Europe is bound to be more cautious in dealing with an economy its own size, while Congress will fight harder for "Buy American" rules. But if CETA can work, it will be harder for protectionists to claim that services cannot be liberalised. That would be worthwhile.