

Canada poised to become world's freewheeling dealer

We could be at the crossroads of international trade - a big, cold Hong Kong of the north

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Within the next few years, Canada could well become the freest trading nation on the face of the Earth. Roughly 75 per cent of our trade is already free, thanks to the Canada-U.S. Free Trade Agreement and its successor, NAFTA. And that, as you'll see, is just the start.

A Canada-European Union deal, called the Comprehensive Economic and Trade Agreement (CETA), is at the top of the list, with negotiations predicted to wrap up by the end of this year, perhaps even sooner. About 10 per cent of our trade is with Europe even now: with a free-trade agreement in place, that proportion would be certain to expand.

At that moment, we would join a select group of countries - Chile, Colombia, Israel, Jordan, Mexico, Morocco, Peru - with guaranteed access to the two richest markets in the world: perhaps the first of the world's leading economies to attain that status. I say perhaps. South Korea formally entered into a free-trade agreement with the United States this week, and is awaiting ratification of a similar agreement with the EU, so they may beat us to the punch.

The CETA would bring many benefits on its own, not least of which would be to force the provinces to stop discriminating against foreign contractors in procurement: with any luck they might stop doing so against each other. But the combination of the two agreements, U.S. and EU, is extraordinary. The ability to serve both markets, tariff-free, is an obvious incentive to locate a plant in Canada, making us the "hub" to their two spokes.

That's unlikely to last for too long: indeed, that probably accounts for Europe's interest in the deal - to prompt the Americans to sign onto a transatlantic agreement, merging NAFTA and the EU. So be it. What we'd lose in location advantages we'd gain from the opportunities to rationalize production across what would become a single market of nearly a billion people.

Meanwhile, we are also well into discussions on a free-trade agreement with India. We don't do a great deal of trade with them now, just \$2 billion a year. But again, that would be expected to grow rapidly under free trade. And again, only the Koreans, who already have a treaty with India, would be in our league, both of us with guaranteed access to the first, second and fourth richest markets in the world. (A Canada-South Korea free trade agreement is also nearing completion.)

That leaves, among the big four, China. Prime Minister Harper has agreed to a joint study that could "lead to discussions to examine the feasibility of a free-trade agreement." Talks are rather further advanced between China and South Korea.

Unlike South Korea, however, we have applied to join the Trans-Pacific Partnership, a nascent 10-country group that includes, inter alia, the United States, Australia, New Zealand, and Japan - with whom we have also begun exploratory discussions. So there is every prospect of stealing a march on the Koreans here, provided we look sharp - having secured their bilateral relationship, the Americans are already promoting Korea's admission to the TPP. It would be insanity, in particular, to let supply management bar our entry.

Only two other countries are close to us in the scale and scope of the trade agreements they have negotiated. Chile has free trade agreements with the U.S., the EU, Japan, China and Mexico - but not India or Korea. Singapore has agreements with the U.S., Japan, India, China and Korea - but not the European Union. But stay tuned: Singapore and the EU are in negotiations as we speak.

Still, it's heady company to be in: South Korea, Chile and Singapore are well known as buccaneering free traders. But Canada? It wasn't so long ago that this country accepted protectionism - the National Policy, it was called - as part of its very identity. But a lot has changed since that tumultuous election in 1988 that committed us to free trade with the United States, and having made that fundamental turn outward we have found each additional step along the trade liberalization road less arduous. In addition to those mentioned, we have signed agreements with Honduras, Panama, Jordan, Colombia, Peru, Costa Rica and Israel, and have several more in negotiation.

Indeed, with so much of our trade already free - 90 to 95 per cent, if we are successful in the ambitions I've outlined - there would seem less and less reason not to simply abolish our remaining trade

barriers unilaterally, as we did recently with regard to tariffs on intermediate goods. These were always more self-inflicted wounds than anything else: any economist will tell you the case for free trade is about cheaper imports, not more exports, and does not depend on whether other countries reciprocate. But with their remaining utility as bargaining chips having been exhausted, the last argument for retaining them would have vanished.

There was a time when economists tended to look askance at such bilateral or regional trade agreements. The concern was that these would lead to "trade diversion" rather than "trade creation," inducing trade between countries on the basis of preferential arrangements rather than comparative advantage. What this overlooked was the dynamic of competitive liberalization that was unleashed, each country scrambling to join trade agreements lest they be left out, existing free trade areas merging with others to form still larger arrangements. Certainly looking at the moribund state of the Doha round at the World Trade Organization, it's hard to argue the merits of multilateralism.

And you have to like where Canada is positioned in all this: at the crossroads of international trade, a big, cold Hong Kong of the north.

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