

EU deal's biggest benefit: Better trade within Canada

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The Free Trade Agreement (FTA) and the 1988 election upon which it was largely based occurred when I was in graduate school. At the time, my impression of the general consensus among economists was that the FTA was a good idea, but that it wasn't all that big a deal.

The U.S. and Canadian economies were fairly similar, and already highly integrated: most of the low-hanging fruit from the gains to trade had been pretty well picked over. And that consensus fairly characterises what actually happened. As the University of Toronto's Dan Trefler put it in his widely-cited study, "a 3-percent rise in earnings spread over eight years will buy you more than a cup of coffee, but not at Starbucks."

Distance matters when it comes to international trade: everything else being equal, it will always be cheaper and easier to deal with the trade partner who is closest.

Previous GATT/WTO treaties have already removed most obstacles to trade, so it's hard to see how the proposed Canada-EU Comprehensive Economic and Trade Agreement (CETA) will have more than minor effects on Canada-EU trade volumes -- and existing volumes are one-seventh of the trade flows between Canada and the United States. So what's the fuss about?

Although the ostensible goal of CETA is to liberalize trade between Canada and the EU, its most important effect may well be to liberalize trade within Canada, especially in the field of government

procurement. The threat from foreign competition in this sector is surely overblown: local firms with local expertise should, for the most part, have little trouble in fending off European competitors. The more serious challenge would be posed by Canadian firms based in neighbouring municipalities and provinces.

Increased competition in procurement can only be a good thing: no public interest is served when governments overpay for goods and services. The possibility that taxpayers might obtain better value for their money should be seen as a [benefit](#) of CETA instead of as a cost.

Freer trade within Canada may be only a potential side-effect of CETA, but it is probably a more important consequence than its nominal aim of liberalizing trade between Canada and Europe.