CANADA-EUROPE POLICY BRIEFING

Overcoming Inertia Towards Economic Prosperity

By Kurt Hübner

In June 2007, Canadian Prime Minister Stephen Harper and then-president of the European Council, Angela Merkel, met in Berlin and discussed a new initiative for transatlantic economic relations.

The meeting resulted in establishing a joint working group for preparing a study on the "costs and benefits" of closer economic relations. This study will probably be released late in the summer of this year.

Given the rather unsuccessful history of bilateral efforts to strengthen the economic relationship, the rather hesitant tone of the joint declaration from a year ago comes as no surprise.

From a Canadian perspective, there may have been no dire need for any such initiative at all. The 27 member states of the EU already represent the second-largest market for Canadian exporters, and are the second-largest foreign direct investors in the Canadian economy.

In other words, it appears that Canadian companies perform well in their economic relations with Europe, and that other, more dynamic and growing areas of the global economy are in more urgent need for political cultivation than the established European markets.

From a European perspective, Canada is a relatively small market and not high enough of a priority for additional efforts to negotiate a more far-reaching and ambitious economic partnership agreement. Although circumstances dramatically changed due to the ongoing and deepening recession in the U.S., such attitudes may prevail in some corners of Canada and the EU and hinder a deeper relationship between both entities.

However, these attitudes misinterpret the strategic interests on both sides of the Atlantic.

First, the established multilateral principles of the global trading system seem to be endangered with the death of the Doha round.

Canada, more so than the EU, urgently needs to catch up with the ongoing process of bilateral and regional trade agreements. The initiative for a deeper economic partnership with the EU can be seen as a reflection of this need.

The current economic state of the United States signals a fundamental change in its global economic position. The U.S. is no longer the lone economic superpower of the global economy. Its structural trade deficit needs to be reduced. This could be possible through a combined increase of exports, a reduction of imports, and a steep and ongoing depreciation of the U.S. dollar.

The ongoing destruction of private wealth in the financial markets of the U.S. might spark a market-driven reduction of its past over-consumption and lead to the necessary increase of its saving rate.

For the global economy, such a process implies that the most important export destination will lose steam. In 2008, Canada starts feeling the shrinking of U.S. growth. The emerging market economies of Asia will most likely compensate for parts of this loss.

The most important side effect of a lower U.S. dollar is the steep rise in the price for oil, and this endangers global economic growth all over the place. Economies like Canada's, which send the vast bulk of their exports to the U.S., need to quickly shift the geographical destination of their exports.

Improving Canada's economic relationship with the EU, the largest common market in the world, may be just the timely step needed. Canada—albeit a "small economy"—has all the features of an attractive economic partner for the 21st century.

Due to high global oil prices and dramatic technical progress in the area of oil exploitation, the Canadian oils sands now give the country access to the second-largest worldwide oil reserves. As those reserves provide environmental challenges due to associated increased carbon emissions, transatlantic technological alliances will become highly attractive for European companies.

With its income per capita, Canada belongs to the top group of developed market economies that offer market opportunities for sophisticated consumers and investors.

Yet despite these structural issues, the political ambitions on both sides of the Atlantic for deepening economic relations are modest. This reluctance does not necessarily reflect public opinion on trade and economic globalization. Unlike in the U.S., where over the last few years public attitudes concerning trade and globalization have become more skeptical, Canadians, as well as the larger trading societies of the EU, are strong supporters of trade and globalization.

Following the latest PEW data, 82 per cent of Canadians have an overall positive attitude towards foreign trade. This figure is only surpassed by Germans and Swedes at 85 per cent. Among Europeans, only Italians are turning skeptical towards international trade. However, their share of positive opinions, at 68 per cent, is higher than the U.S.'s 59 per cent.

Canadians and Europeans not only strongly support foreign trade, but the same poll also demonstrates that both Canadians and Europeans are overwhelmingly in favour of strong welfare states that provide a social safety net for those left behind by the economic consequences of globalization and free trade. Politically, this combination is much more strongly expressed in the European compared to the Canadian case.

The same PEW data show that those attitudes also hold regarding a sustainable environment: Canadians and Europeans value a safer natural environment more than economic growth.

These shared values generate a concrete foundation for a closer Canada-EU economic partnership. An initiative based on these common values in the 21st century should be used by political actors on both sides of the Atlantic to move forward with an agreement that covers "fair" trade as well as environmental concerns.

Citizens in Canada and Europe appear to be ready for this type of partnership. It is now up to the political classes to make it happen.

Kurt Hübner is director of the University of British Columbia's Institute for European Studies and a researcher with the Canada-Europe Transatlantic Dialogue.

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