Analysis of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA)

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Formal Research Proposal

Introduction – Topic, Scope and Aim of Dissertation

The recent global financial crisis has been the source of change in trade policies around the world with some governments, such as Washington, adopting protectionist policies, while others, such as Canada and the European Union seeking growth through increased trade facilitated by bilateral free trade agreements. If successful, the Canada-EU Comprehensive Economic and Trade Agreement, which is currently under negotiation, will be one of the most encompassing and comprehensive free trade agreements in the world. If such an agreement were negotiated successfully, it would radically change the macro environment and the relationship between the two trading blocs. This dissertation will examine the arguments for and against free trade agreements using different theoretical perspectives and viewpoints of economists. It will look at the history of Canada-EU trade relations, current trade flows and existing legal trade frameworks. It will discuss the type and scope of the proposed agreement as well as the benefits obtained and the criticisms that exist. This paper will also look at the arguments for the agreement and examine whether or not they are sufficient for such a sweeping agreement. Alternatives will be sought and examined. The aim of the paper will be to fully analyze the trade agreement in order to determine if the agreement will benefit the parties involved in the long run and thus whether or not it is a good idea.

Review of Previous Studies

In 2001, Cameron and Loukine undertook a study entitled 'Canada-European Union Trade and Investment Relations: the Impact of Tariff Elimination" which examined the impact of the elimination of tariffs between Canada and the EU. (Cameron & Loukine 2001) The study states that EU-Canada trade has been underperforming and the elimination of tariffs would bring significant positive economic benefits to trading blocs, with the industrial sector gaining the most. (Cameron & Loukine 2001)

A report by the Centre for European Policy Studies supports the Canada-EU free trade agreement, citing considerable potential economic gains for both parties and illustrating how past and current trading patterns would lead to increased trade after an agreement is signed. (Sarisoy Guerin & Napoli 2008) Sarisoy Guerin and Napoli also discuss the impact of trade diversion from Europe to the United States after NAFTA was signed and argue that an agreement with Canada would increase European competitiveness in the Canadian market. Comparing the similarities between the US and Canada prior to NAFTA and Canada and the EU currently, Sarisoy and Guerin use NAFTA and the ensuing impacts it had on Canada and the US as an example to illustrate how trade could potentially impact both trading blocs. (Sarisoy Guerin & Napoli 2008)

The European Commission and the Government of Canada conducted a joint study to assess the costs and benefits of a closer EU-Canada economic partnership highlighting the benefits, which includes a potential 20% increase in trade and GDP gains of $12 billion by 2014 for Canada and GDP gains of $20 billion for the EU. (European Commission & Government of Canada 2008b) The study gives a summary of bilateral economic relations, analyzes the factors affecting EU-Canada trade and investment, examines existing and potential bilateral cooperation in other areas, discusses the views of the private sector and presents key findings.

The Honourable Roy MacLaren in a briefing paper for the University of Calgary School of Policy Studies writes that despite previous difficulties in getting trade talks off the ground between Canada and the EU and the challenges free trade negotiations would encounter along the way, both parties would benefit considerably from removing barriers of trade. (MacLaren 2008)

Rationale for Topic

The recent financial crisis has illustrated how much the world has changed as a result of globalization. While some countries take protectionist measures to fight the challenges of a recession, other countries are embracing the liberalization of markets as a way out of the crisis. Clearly, the topic is timely and relevant. Analyzing the example of the EU-Canada negotiations in the context of the current crisis and viewing the benefits and drawbacks for both the EU and Canada will, hopefully, lead to a greater understanding of not only this particular agreement but of the free trade debate in general. This in turn will hopefully lead to a conclusion as to whether or not a free trade agreement between Canada and the European Union is a good idea.

Research Plan and Methodology

Secondary research will be the main information collection method. There is currently a great deal of information about free trade, its proponents and opponents, its benefits and weaknesses and the social, economic, political and legal arguments for and against it. On the specific topic of the EU-Canada accord, there is a great deal of secondary data on the benefits of greater market access but not as much about the weaknesses and negative effects such an agreement would have on either party or possible suggestions for other solutions. There are economic arguments put forth by Jacob Viner and Jagdish Bhagwati arguing against bilateral trade agreements, as well as the mercantilist argument of protectionism to ensure the security of the state. However, there are bound to be other arguments as well.

The negotiations are ongoing and discussed in the news on a frequent basis. This means regular searches of newspaper and magazine articles to remain on top of the information. Tracking down different institutions, individuals, policy centres etc., will also be good sources of information Following the information trail and keeping up with the latest developments, as well as delving into the past and into the theory of free trade and FTAs, will be the collection method of information. There is an extraordinary amount of information available at the moment and one of the difficulties will be getting to the relevant and most important facts.

Abstract

The recent global financial crisis has been the source of change in trade policies around the world with some governments, such as Washington, adopting protectionist policies, while others, such as Canada and the European Union seeking growth through increased trade facilitated by bilateral free trade agreements. If successful, the Canada-EU Comprehensive Economic and Trade Agreement (CETA), which is currently under negotiation, will be one of the most encompassing and comprehensive free trade agreements in the world. This dissertation examines the contextual framework in which the CETA is being negotiated by looking at the current political and economic environments of Canada and the EU, their trade patterns with third parties and their trade with one another. It considers arguments for and against free trade agreements using different theoretical perspectives and viewpoints of economists. It discusses the type and scope of the proposed agreement as well as the benefits obtained and the criticisms that exist. Conducted from a Canadian perspective, the aim of this dissertation is to fully analyze the trade agreement and determine its potential benefits and its weaknesses in order to arrive at a conclusion about whether negotiations should remain ongoing or if they should be stopped.

Key Word: Comprehensive Economic and Trade Agreement (CETA)

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List of Abbreviations

ASEAN	Association of South East Asian Nations
CAD	Canadian dollar
CETA	Comprehensive Economic and Trade Agreement
CU	customs union
DG	Directorate General
EC	European Commission
EFTA	European Free Trade Association (Iceland, Norway, Switzerland and Liechtenstein)
EP	European Parliament
EU	European Union
EU15	European Union and its 15 Member States (prior to enlargement)
EU27	European Union and its 27 Member States
FTA	free trade area
GATT	General Agreement on Tariffs and Trade
GPD	gross domestic product
HO	Heckscher-Ohlin theorem
MFN	most-favoured nation
NAFTA	North American Free Trade Agreement
NTB	Non-tariff barrier
PPP	purchasing power parity
PTA	preferential trade agreement (or area)
RTA	regional trade agreement
US	United States of America
USD	United States dollar
WTO	World Trade Organization

1. Introduction

The concept of globalization has taken root in modern economics and is regarded as a vehicle for growth and expansion. The economic crisis of recent days, however, has prompted many countries, including the United States of America, to become more protectionist in their trade policies. Despite the current turmoil, Canada and the European Union are viewing this as an opportune moment to begin negotiating a comprehensive economic partnership agreement that would observe the free movement of goods, services, labour and investment between the 27 Member State economic union of Europe and the less populated resource rich country of Canada. The beginning of negotiations on the Comprehensive Economic and Trade Agreement (CETA) was announced in Prague on 6 May 2009. For the purposes of this dissertation, which is limited in length, a Canadian perspective has been adopted and the focus is primarily on trade in goods. This dissertation will examine the information available on the topic of the Canada – European Union Comprehensive Economic and Trade Agreement (CETA) to try and determine if the benefits of such an agreement outweigh the costs and whether or not Canada should continue negotiations or bring them to a halt.

1.1 Research Aims

The research aims of this dissertation are:

- Utilize the SWOT model to analyze the strengths and weaknesses of Canada's current economic and trade position and the opportunities and threats that would arise from the implementation of the CETA
- Critically evaluate the development of the CETA in the context of trade theory.
- Determine whether or not Canada should continue to pursue the CETA

2. Context

It is important to analyze the Comprehensive Economic and Trade Agreement (CETA) within the context of the environment in which it is being negotiated. This section will provide contextualization by examining the political and economic environments of Canada and the European Union (EU) with reference to significant indicators. It will discuss the current state of their respective extra-trade activities with third parties prior to assessing the history of trade relations between Canada and the EU and the current state of trade that exists between them.

2.1 Environmental Analysis of Canada

2.1.1 Canada's Political Environment

Canada is an independent democratic nation and a constitutional monarchy governed by the Constitution and the Rule of Law. The federation of Canada gained its independence from Britain on 1 July 1867, however the Queen of England remains the Head of State, represented in Canada by the Governor General. (CIA 2010a) The head of government in Canada is the Prime Minister. The Parliament of Canada has three parts: the Crown (the Queen) the Senate, which is appointed and the elected House of Commons. (See Appendix A)

The House of Commons, also known as the Lower House, has 308 Members of Parliament who elected in ridings across the country and are responsible for the majority of law making in Canada. The Upper House, or the Senate, has 105 members (Senators) who are appointed by the Governor General on the advice of the Prime Minister. The Senate can amend or reject bills that are proposed by the House of Commons, although this is not very common. The Senate must approve all bills before the Governor General can give them royal assent and they become binding legislation.

Government responsibilities are divided between the federal government and the 10 provincial and 3 territorial governments, as outlined in the Constitution Act 1867. (Forsey 2010) Provincial governments are autonomous in their decision making while territorial governments have fewer responsibilities and are subordinate to the federal government. The Head of State of each province is the Lieutenant Governor, a representative of the Queen, and the head of government is the Premier, who governs together with his/her Cabinet. Provinces have significant power and govern independently from the federal government with the assistance of provincial institutions.

2.1.2 Canada's Economic Environment

Canada has a population of 33.5 million people and a growth rate of 0.82%. (CIA 2010a) In 2008, Canada's gross domestic product (GDP) was worth $1400 billion CAD (€1,027.3) representing 2.26% of the world economy and is growing at a rate of 1.23% annually. (Global Economics Research 2010c) GDP per capita in Canada is $26,143 CAD while GDP per capita purchasing power parity (PPP) is $36,444 USD. (Global Economics Research 2010b) The Canadian economy is highly diversified and developed and approximately 45% of GDP is the result of foreign trade. (Global Economics Research 2010a)

The rate of inflation in March 2010 was 1.4%, declining from a rate of 1.9% in January 2010 while interest rates remain low at 0.25%, a constant rate maintained since May 2009. (Global Economics Research 2010d; Global

Economics Research 2010e) Unemployment rates have declined in March 2010 to 8.2% following a sharp increase starting in late 2008 to a high of 8.7% unemployment in April 2009. (Global Economics Research 2010f) The improvement of these economic indicators is evidence of a recovering Canadian economy following the recent global recession.

2.1.3 Canada's International Trade

Trade, both internal and external, is the responsibility of the federal government. The principles guiding trade in Canada are outlined in the Agreement on Internal Trade, which states that Canada seeks to remove obstacles and improve the free movement of goods, services, people and investment with the purpose of improving efficiency, reducing costs, increasing market access and establishing an open and stable domestic market. (Internal Trade Secretariat 2010)

Advantage Canada: Building a Strong Economy for Canadians outlines the Government of Canada's strategy for long-term economic prosperity and includes a policy of increased openness to trade and foreign investment that pursues not only multilateral trade negotiations via the World Trade Organization but also bilateral trade agreements with countries or regional trading blocs. (Department of Finance Canada 2006)

As the 10th largest global importer (2.7% of total imports) and 11th largest exporter (2.8% of total exports), Canada was the world's 10th largest trading nation in 2008. (EC Trade 2009) (See Appendix B) The value of Canadian exports increased from $530.3 billion CAD in 2007 to $557.9 billion CAD in 2008, with exports of goods worth $489.9 billion CAD, a rise of 5.8 % ($26.9 billion CAD). (Cameron 2009, p.37) Imports of goods and services into Canada also increased from $501.5 billion CAD in 2007 to $533.3 billion CAD in 2008. (Cameron 2009, p.37)

Canada's main commodity exports are motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment; chemicals, plastics, fertilizers; wood pulp, timber, crude petroleum, natural gas, electricity and aluminium and its main commodity imports are machinery and equipment, motor vehicles and parts, crude oil, chemicals, electricity and durable consumer goods. (CIA 2010a)

With ownership of more than 10% of the world's forests, Canada was the largest forest-product exporter (10.6%) in 2008. (Natural Resources Canada 2010b) As one of the leading mining countries, Canada is also a leading exporter of more than 60 metals, minerals and mineral products. (Natural Resources Canada 2010c) Canada is also the world's sixth largest producer of petroleum, the third largest producer of natural gas and the seventh largest producer of electricity. (Natural Resources Canada 2010a)

The United States is Canada's most important trading partner with total trade worth €401,244.1 million, equalling 65.6% of total trade, in 2008. (DG Trade 2009a) (See Appendix C) In 2008, Canadian exports to the United States accounted for 78% of total exports, worth €241,152.4 million while US imports to Canada accounted for 52.9% of total imports, valued at €160,102.7 million. (DG Trade 2009a) (See Appendix C) Trade between Canada and the United States is conducted under the framework of the North American Free Trade Agreement (NAFTA), which was signed by Canada, Mexico and the United States and came into effect on 1 January 1994. The implementation of NAFTA has seen trade in merchandise between Canada and the United States more than double between 1993 and 2008, while within the same period trade between Canada and Mexico more than quadrupled. (DFAIT 2009a) The number of net new jobs created in the same period is 4.3 million and currently one in five jobs in Canada is related to trade. (DFAIT 2009a)

Canada has signed free trade agreements with Jordan (June 2009), Colombia (November 2008), Peru (August 2009), Costa Rica (November 2002), Chile (July 1997) and Israel (January 1997) as well as the first European trade agreement with the European Free Trade Association (EFTA) which comprises Iceland, Liechtenstein, Norway and Switzerland, which came into effect on 1 July 2009. (DFAIT 2010)

Canada has ongoing free trade negotiations with Ukraine, Morocco, Panama, Korea, Bolivia, Ecuador, the Caribbean Community (CARICOM), Dominican Republic, Central America Four (CA4 – El Salvador, Guatemala, Honduras and Nicaragua), India and Singapore. (DFAIT 2010) Foreign investment promotion and protection agreements (FIPAs) have been signed with 25 countries and negotiations with more than 5 countries are ongoing. (DFAIT 2010)

2.2 Environmental Analysis of the European Union

2.2.1 The European Union's Political Environment

The European Union (EU) is a supranational organization consisting of 27 Member States that form a political and economic union. At the end of World War II, the concept of a new system in Europe began to emerge as a way of ensuring peace, prosperity and stability for all people. Countries within the EU are sovereign independent states that work together to compete in the global economic environment. Decisions are made through three main institutions: the European Parliament (EP), Council of the European Union and the European Commission (EC).

The Council of the European Union consists of government ministers that represent the national governments of Member States. It is the main decision making body and is responsible for passing EU laws, coordinating economic and social policies of member states, negotiating international agreements, approving the EU budget (together with the European Parliament), defining and implementing the EU common foreign and security policy (CFSP) (according to guidelines set by the European Council), and coordinating cooperation between courts and police forces of Member States in criminal matters. (European Commission 2007)

Elected Members form the European Parliament and represent the interests of the citizens of the European Union. The 785 Members are responsible for passing laws (together with the Council), supervising the democratic process and exercising control over the budget. (European Commission 2007)

The European Commission is the executive branch of the EU and is responsible for initiating legislation, managing and implementing EU policy and budget, enforcing EU law (together with the Court of Justice) and representing the EU internationally, including negotiating agreements. Its 27 Members represent each Member State. (European Commission 2007)

2.2.2 The European Union's Economic Environment

The European Union has a population of 492 million people, the third largest in the world after China and India, and has a growth rate of 0.11%. (CIA 2010b) In 2009, GDP in the EU27 decreased by 4.2%, following a fourth quarter increase of 1.6%. (Eurostat 2010b)

Annual inflation decreased from 1.7% in January 2010 to 1.4% in February 2010 while average weighted interest rates in EU27 also fell from 4.09% in January to 4.04% in February. (Eurostat 2010d, p.6)

Unemployment in the EU27 remains steady at 9.6% as of March 2010. (Eurostat 2010c) The EU current account has a deficit of €9.2 billion as of December 2009 with total exports of goods valued at €300.7 billion and total imports of goods worth €310.1. (Eurostat 2010a)

2.2.3 The European Union's International Trade

The European Union is one of the world's greatest trading powers. In 2007, the EU was responsible for 19% of total world trade, including trade in goods (17%) and services (27%), making it the largest importer and second largest exporter worldwide. In 2008, when including both intra- and extra-EU trade, it exported €4,180 billion or 37.5% of total trade, and imported €4,015 billion or 36.6% of total trade, making it the largest importer and exporter globally. (EC Trade 2009) (See Appendix B)

The EU's major trading partners in 2008 were the United States, with total trade valued at €435,995.5 million (15.2%) China, with trade worth €326,325.0

million (11.4%) and Russia, with trade valued at €278,770.2 million (9.7%). (DG Trade 2009a) (See Appendix D)

Global Europe: Competing in the World outlines the EU's strategy for growth and jobs within the framework of the Lisbon strategy, which it states can be achieved through a trade policy that encourages open markets and a clear regulatory framework while remaining accountable to and responsible for EU citizens and the rest of the world. (EC Trade 2006)

The EU seeks to increase trade through multilateral negotiations; currently within the framework of the Doha Round of trade talks within the World Trade Organization. Despite its commitment to multilateral trade talks, the EU recognizes a need to pursue bilateral free trade agreements in order to achieve increased openness and access to new markets. Trade policy and agreements are negotiated by the European Commission on behalf of the Member States based on directives given by the Council, which also approves the results. (DG Trade 2009b)

The EU has entered into a customs union with Andorra (1991), Turkey (1995) and San Marino (1992), has signed a free trade agreement with EFTA, as well as numerous association agreements and stabilization and association agreements. (EC Trade 2010)

2.3 History of Canada-EU Trade Relations

Historically, attempts by Canada to initiate negotiations for a free trade agreement with Europe were always promptly terminated by European officials. In January 2007, however, discussions commenced between Quebec Premier

Jean Charest, a strong supporter of a free trade agreement with the EU, and German politicians. (Wells 2007) Subsequent meetings took place in 2008 with European officials and a statement from the October 2008 Canada-EU Summit in Quebec signalled the beginning of a serious joint effort to begin negotiations on a trade agreement. (European Commission & Government of Canada 2008a)

2.4 Canada and the European Union's Existing State of Trade

The current trade relationship between Canada and the European Union is founded on three agreements: the Framework Agreement for Commercial and Economic Cooperation of 1976, the Transatlantic Declaration of 1990 and the Canada-EU Joint Political Declaration and Action Plan of 1996. (MacLaren 2009b)

Although the US is Canada's most important trade partner, its share declined between 2004-2008 as Canada has diversified and increased its trade activities with other countries including the European Union, whose total trade with increased from 9.3% in 2004 to 10.5% in 2008. (Cameron 2009, p.39) (See Appendix E)

Two-way trade in goods and services between Canada and the EU in 2008 was valued at €70 billion and foreign investment was valued at €267 billion at the end of 2007. (Government of Canada 2008) Although EU27 trade in goods with Canada resulted in an increase of imports from €19.7 billion in 2006 to €23.8 billion in 2008, exports were affected by the financial crisis, as they fell from €26.7 billion to €26.1 billion in the same period, resulting in a declining balance of trade from €7.0 billion to €2.3 billion. (DG Trade 2009a) (See Appendix F)

In 2008, the EU was Canada's second largest import partner (12.6% of total imports) and its second largest export partner (7.5%), making it Canada's second largest trading partner. (DG Trade 2009a) (See Appendix C) In the same year, Canada was the EU's 14th largest import partner (1.5%) and 11th largest export partner (2.0%), making it the EU's 11th largest trade partner (1.7% of total trade). (DG Trade 2009a) (See Appendix D)

The EU's major imports from Canada in 2008 were machinery and transport equipment (23.8%), crude material (inedible, except fuels) (19.7%), manufactured goods (15.6%) and mineral fuels, lubricants and related materials (11.2%) (DG Trade 2009a) (See Appendix G) In 2008, the EU's major exports to Canada were machinery and transport equipment (37.5%), chemicals and related products (19.4%) and manufactured goods (11.3%). (DG Trade 2009a) (See Appendix H)

Average tariffs on trade of manufactured goods in Canada are 1.6% and 3% in the EU. (CERT 2008, p.4)

3. Canada-European Union Comprehensive Economic and Trade Agreement (CETA)

3.1 Description and Scope

The Comprehensive Economic and Trade Agreement (CETA) is a proposed trade agreement between the European Union and Canada, which aims to boost trade by lowering tariffs and ensuring the free movement of goods, services, labour and investment.

Released on 5 March 2009, the Joint Report on the EU-Canada Scoping Exercise defines the scope of the agreement and establishes critical points for its successful completion, taking into consideration the competences of the Canadian provinces and territories and the 27 European Member States. (Joint Scoping Group 2009)

As many tariff barriers have already been reduced under the multilateral trade system, the CETA will be a second-generation trade agreement, which emphasizes the reduction or removal of non-tariff barriers. (Leblond 2008) Key issues under negotiation include technical barriers, trade facilitation, customs procedures and rules of origin, central and sub-central government procurement, food safety and animal and plant health measures, intellectual property, dispute settlement, sustainable development sanitary and phytosanitary standards, regulatory cooperation, services market, competition policy and regulation and enhanced labour mobility. (Sarisoy Guerin & Napoli 2008; Harper & Topolanek 2009; O'Neil 2009)

Harper states that the proposed agreement will be more ambitious, deeper and more comprehensive than any free trade agreement of the past, resulting in an historic and unique economic partnership agreement. (Deutsche Presse-Agentur 2008)

3.2 Motives for the Canada-EU CETA

Canada's motives for the pursuit of a bilateral free trade agreement with the European Union are its dependence on the US for trade and economic growth, the recent global crisis and resulting increase in protectionist policies in the US, the breakdown of the Doha Development Round and increased leverage in future trade negotiations with Asia.

3.2.1 Dependence on the United States

According to MacLaren (2007) and Austen (2008), concerns about Canada's economic dependency on the US for trade is driving Canada's desire for diversity of trading partners and increased trade with the European Union. Canada's trade with the US accounts for 78% of exports and 52.9% of imports, resulting in 67.8% of total trade in 2008. (See Appendix E)

3.2.2 Global Economic Crisis and Rising Protectionism in the United States

It is important to keep in mind that the early stages of the Canada-EU free trade negotiations began as the global financial crisis was unfolding, first in the US and then spreading around the world. According to Martin, it was important for Canada to look to other markets to lessen the impact that the US financial crisis would have on the Canadian economy. (Deutsche Presse-Agentur 2008)

Ashton, EU Trade Commissioner and High Representative of the European Union for Foreign Affairs and Security Policy, stated that an economic agreement between Canada and the EU would enable both trading blocs to trade their way out of the economic downturn. (AFP 2009)

During difficult economic times, as has been the case in recent years, countries have a tendency to become more protectionist. White House statements by President Obama about North American Free Trade Agreement (NAFTA) renegotiations and increasingly protectionist policies, including 'Buy American' provisions and country of origin labelling requirements on farm products, were key factors in Canada's decision to approach the EU regarding a free trade agreement.(Hubner & de Mestral 2008; MacAskill 2009; WSJ 2008)

However, Canada and the European Union agreed that despite protectionist tendencies in the US, the creation of open markets through free trade was a significant source of growth, jobs creation and improved productivity and a more appropriate method of emerging from the downturn. (EC Trade 2006; Department of Finance Canada 2006)

3.2.3 Breakdown of Doha Development Round

A lack of confidence in and frustration over the slow progress of the Doha Round of multilateral trade talks are also motivating factors in the pursuit of a new trade agreement between Canada and the EU. (Economist 2009, p.80) Long cites problems at the WTO as the cause of recent increases in negotiations. (Deutsche Presse-Agentur 2008)

3.2.4 Future Leverage vis-à-vis Asia

As power in the global economy begins to shift from West to East, Canada and the European Union, as well as other countries like the U.S., are taking note of the need to increase their leverage vis-à-vis Asia. (MacLaren 2008) Regional trade agreements in Asia, including ASEAN, and the growing economies of China, India and other Asian countries, has resulted in the slow decline of the West's economic advantages.

A transatlantic trade agreement between Canada, Mexico and the EU, and perhaps the US in the future, would give the trading bloc greater leverage in future trade and economic talks with Asia.

4. Literature Review

4.1 International Trade Theory

International trade is defined as economic transactions, in the form of exports and imports of goods, services and capital, made between countries. (Encyclopaedia Britannica 2010) The uneven distribution of resources throughout the world and the limitations on the mobility of factors of production (land, labour and capital) are the driving forces of international trade. (Worthington et al. 2005, pp.307-308)

4.1.1 Mercantilism and Protectionism

The policy of classical mercantilism according to Mun (1755), Steuart (1770) and Smith (1776) seeks national power, which can be achieved through the accumulation of wealth (gold and silver historically) through the promotion of exports and opposition to imports, which leads to economic growth due to expansion of the money supply and trade surpluses (favourable balance of trade). Wealth and power enables the preservation and protection of national security and independence and economic growth improves the standard of living of citizens.

Balaam and Veseth (2004) state that mercantilism views trade as zero-sum, due to limited resources (gold and silver in particular) and power in terms of absolute gains and losses, so that one state is wealthier and more powerful at the expense of another. As such, protectionist measures are implemented by states to strengthen competitiveness of domestic firms. Governments intervene by providing subsidies and tax exemptions to domestic producers and applying tariffs and non-tariff barriers to foreign goods and services.

Although the era of classical mercantilism was brought to an end by the publication of Adam Smith's *The Wealth of Nations* (1776), the theory of mercantilism evolved and reappeared throughout history, first in the form of economic nationalism and then as neomercantilism. LaHaye (2008) writes that modern mercantilist policies are enacted by governments with the purpose of protecting the economic security and independence of the state. Methods employed include tariffs, which have been significantly reduced following the creation of GATT and the World Trade Organization (WTO) and non-tariff barriers (NTBs), which are much less overt. (See Appendix I for further information regarding mercantilism and protectionism.)

Husted and Melvin (2006) define tariffs as a government tax imposed on exports or imports and non-tariff barriers as a broad array of policies other than tariffs, which are intended to affect the quantity or structure of the nation's international trade. Non-tariff barriers include quotas, subsidies, voluntary export restraints (VERs) and government policies or regulations (i.e. health and safety regulations, public procurement policies). (See Appendix I for definitions and further information regarding tariffs and non-tariff barriers)

Hamilton (1827), Mill (1848) and List (1856) advocated the principle of infant industry protection as a justification for protectionism. This theory was further developed into New Trade Theory, often associated with Krugman (1987), which is based on the idea that certain industries (where strong externalities exist) must be protected so they can grow and achieve economies of scale.

Smith (1776) stated that some industries must be protected due to the critical role they play in the security and national defence of a country. Further arguments for protectionism include tariffs as a source of government revenue, as a method for redistributing income, and for the protection of the environment. (Husted & Melvin 2006, pp.199-212) (See Appendix I for further arguments in favour of protectionism)

It is in the nature of a country to ensure its own security and independence and thus it will implement protectionist policies when it feels threatened, even though it might declare its absolute commitment to free trade.

4.1.2 Absolute Advantage

Smith (1776) opposed the mercantilist premise that the supply of bullion represented the wealth of a nation by making the case that wealth is created when division of labour leads to specialization and enables economies of scale, which leads to improved efficiency and growth.

He also disagreed with the theory of trade as zero-sum by demonstrating that the removal of trade barriers benefits all the parties involved by utilizing the principle of absolute advantage, which is the ability of a country to produce a larger quantity of a particular good than another country, with the same amount of resources, to explain that countries should specialize in that specific good and trade it for products in which it has an absolute disadvantage. Thus, trade benefits all countries involved. (See Appendix J for further information)

4.1.3 Comparative Advantage

In response to the issue of trade for a country that has no absolute advantage, Torrens (1815) and Ricardo (1817) developed the concept of comparative advantage, which asserts that countries without absolute advantage in a good are still able to benefit from trade by exporting goods in which they have a relative cost advantage when compared to other countries. (See Appendix J for further information)

Building on the comparative advantage principle, the Heckscher-Ohlin (HO) model, initiated by Heckscher (1918) and further developed by Ohlin (1933), theorizes that a country has comparative advantage in a good in which the factors of production (a.k.a. factor endowments, including land, labour and capital) required for the manufacture of that particular good are abundant within the country. Thus, countries export goods that exploit their abundant factor endowments and import goods whose factor endowments are scarce. (See Appendix J for further information)

Empirically testing the Heckscher-Ohlin model using data from the United States, Leontief (1953) observed an inconsistency with the theorem in that since the US had an abundance of capital it should have been exporting capital-intensive goods and importing labour-intensive goods but instead it was doing the exact opposite; its exports were labour intensive and its imports were capital intensive.

4.2 Gains from Free Trade

Despite Leontief's Paradox, the principles of comparative advantage remain the primary explanation for the pursuit of free trade. Implementing free trade policies can result in gains from trade for countries, including static gains from trade, dynamic gains from trade and political gains from trade.

Static gains from trade – Keeping resources and technology constant, the economic well being of a country increases due to consumption gains (access to new markets) and production gains (cost reductions due to economies of scale and improved efficiency because of comparative advantage) (Kling 2008)

Dynamic gains from trade – Economic growth as a result of an increase in the resources available or increases in the productivity of existing resources because of trade. (Husted & Melvin 2006, p.150) This can be due to increase in the availability of raw materials or intermediate products, diffusion of technological advances, increased competition leading to market dynamism and innovation, increasing economies of scale due to expanding market and increased research and development, and increased savings and access to funds for investment. (Husted & Melvin 2006, p.150)

Political gains from trade – Globalization and economic interdependency lowers the likelihood of hostility. (Husted & Melvin 2006, p.151)

4.3 Trade Agreements

It has thus been determined that free trade is the optimum objective for countries seeking growth, although in reality governments continue to implement protectionist measures for a variety of reasons. Trade between nations can be bilateral, between two countries, or multilateral, between more than two countries

4.3.1 Multilateral Trade

The multilateral trading system, which is conducted under the auspices of the World Trade Organization (WTO), was established with the aim of improving the economic growth of Member countries through the liberalization of markets and the removal of barriers to trade. Governed first by the General Agreement on Tariffs and Trade (GATT) and then the WTO, Member countries are assured of non-discrimination, reciprocity, market access and fair competition when trading with each other. (Farrell 1999, p.1)

Free trade within a multilateral system enables many countries to achieve the greatest possible gains from trade simultaneously and the WTO has been successful in significantly reducing tariffs around the world. (LaHaye 2008)

4.3.2 Bilateral Trade

Bilateral trade is typically conducted by way of preferential trade agreements (PTA) or regional trade agreements (RTA) usually in the form of free trade areas (FTA) or customs unions (CU). The WTO (2010) permits regional trade agreements, stating that they have the capacity to support the multilateral trade system by addressing issues that are unworkable multilaterally and creating closer economic integration between nations.

The WTO (2009b) reports that this has led to a significant increase in bilateral agreements since 1990, which has been notified of more than 450 RTAs as of February 2010. (See Figure K1 in Appendix K)

Irwin (2008) maintains that the multilateral trading system has experienced difficulties in recent years, particularly in the Doha Development Round, in further liberalizing trade due to the slowness of the process, which requires decisions to be made by a consensus of Member States, thereby limiting the scope of trade liberalization. He makes the case that many of the reductions in tariffs in past negotiations were on less controversial items, such as industrial goods, but discussions regarding agriculture, textiles and so on are far more contentious and consensus has been difficult to attain. (Irwin 2008) Therefore, many countries have found the process of bilateral or regional trade agreements to be much more successful, in terms of speed of negotiations, scope of agreements and the promotion of trade between member countries. (Irwin 2008)

Irwin (2008) also states that PTAs/RTAs are an advantageous method for bringing countries into agreements through “competitive liberalization” where countries that are hesitant or reluctant to enter trade agreements, are encouraged to do so in order to keep up with other countries and to remain competitive through the reduction of trade barriers and membership in free trade agreements. Coyne (2008) defines this as the free trade ‘domino effect’, whereby one free trade agreement is followed by another.

The WTO (2010) also understands that PTAs/RTAs can have a negative impact on trade in other nations and therefore has implemented strict criteria, which must be met before the RTA can be made active, to ensure that they support the multilateral system instead of harming it. (See Appendix K)

According to Viner (1950), bilateral trade can affect international trade in two ways: trade creation, that is, trade expands as cheaper imports replace costly domestic goods, ensuring lower prices and greater efficiency, benefiting the trade partners, or trade diversion, which occurs when imports from outside the RTA are replaced by imports from within the RTA.

Viner (1950) argued that regional trade agreements that result in trade diversion do not promote global free trade but instead worsen not only the economic situations of member countries but also worldwide efficiency. He made the case that when tariffs are removed between member countries but the barriers remain in place to countries outside the agreement, non-members experience greater difficulties vis-à-vis member-country producers in member country markets. Viner (1950) makes the argument that regional trade agreements are beneficial only when trade creation is greater than trade diversion.

Bhagwati (2002; 2008) contends that PTAs undermine the system of free trade since they promote free trade within but are protectionist in nature to non-member countries. When market access within member countries is not burdened by high tariffs, member countries may lower or discontinue importing from lower-cost non-member countries, which means that preferential trade agreements displace current or past trade arrangements, resulting not in the creation of trade but in the diversion of trade. (Bhagwati 2002, p.108)

5. Methodology

5.1 Rationale for Topic

The Canada-European Union Comprehensive Economic and Trade Agreement is a timely and relevant topic. The tumultuous economic activity of recent years has led countries to respond in different ways. The case of the CETA presented an opportunity to discuss both protectionist and liberal trade perspectives. The topic also enabled the use of knowledge previously gained through the course of university studies with particular regard to EU trade law and global economy.

The CETA, which is historic in scope and intention, remains widely unknown and seldom discussed, despite the significant impact it would have on the life of average citizens should it be implemented, especially in Canada. The dissertation was an opportunity to research the topic and gain further insight on its impacts by analyzing it with the framework of trade theory.

5.2 Research Strategy and Data Collection Method

The main source of information was secondary data. The theoretical framework was established using books written by economists as well as economic textbooks. The contextual structure was established using data from government websites and international organizations. The specific data regarding the CETA came from government websites and studies. Much of the information was also found in newspaper articles since the negotiations are ongoing.

The case study method was employed in the development of the dissertation. A theoretical framework was established in the literature review. The use of SWOT enabled analysis of the CETA from a Canadian perspective and allowed for the application of the case to the theory.

5.3 Limitations of the Research

One of the main limitations of the study was the specified length, which meant that the dissertation had to be written from the perspective of only one of the parties, in this case Canada, and a complete analysis from both perspectives could not be undertaken. This gives limited insight into the CETA.

Another limitation was the fact that the negotiations are ongoing and as such the information is continually updated as new information becomes available. This meant that the specifics of the dissertation evolved over time in response to the information available.

6. SWOT Analysis

Developed by Albert Humphrey, the SWOT (Strengths, Weaknesses, Opportunities, Threats) is a strategic tool for analyzing the internal strengths and weaknesses as well as the external opportunities and threats of a company or industry. (Pahl & Richter 2009) The underlying concept of the SWOT has been maintained but the focus of the analysis has been slightly modified for the purposes of this dissertation. Rather than assessing a company or an industry, the SWOT will be utilized to assess the strengths and weaknesses of Canada's trade position as well as the opportunities and threats that might arise from the implementation of a CETA.

6.1 Strengths

6.1.1 Strong financial structure

The strong Canadian financial structure has enabled the country to begin emerging from the financial crisis, as illustrated by recent economic indicators. (See 'Canada's Economic Environment) Van Loan (2010) asserts that Canada is in a position to ensure that taxes remain low and growth continues due to its debt to GDP ratio, which is the lowest among its main competitors.

6.1.2 Commitment to free trade and rejection of protectionist policies

The government of Canada believes that trade liberalization leads to job creation and prosperity, resulting in a higher standard of living and quality of life. (Van Loan 2010) Canadian Prime Minister Harper also commits to free trade by stating that Canada must stand against protectionism and pursue free trade by reducing and eliminating trade barriers. (ICTSD 2008)

6.1.3 Raw material resources

Canada is a country that is rich in resources. As the world's second largest country, it has immense reserves of freshwater, forests, minerals, metals and oil. (CIA 2010a)

6.2 Weaknesses

6.2.1 Weak negotiating position

In the past, there has been little interest on the part of the EU to negotiate a trade agreement with Canada and thus it would appear that Canada wants and/or needs this agreement more than the European Union. Dymond and Hart (2002) suggest that the EU's lack of enthusiasm and willingness to approach the negotiating table and its apparent lack of interest in a preferential agreement would mean that they have greater negotiating power and it is more likely that Canada would be the one that would have to modify its current laws and standard practices whenever they are in conflict with European customs.

The gains from trade for Canada (0.77% increase in GDP) are much greater than they are for Europe (0.08% increase in GDP), putting Canada in a weaker trading position. Also, Canada has a relatively small population of 33.5 million people, ranking 37th in the world, far below many of the emerging Asian markets and a large number of the individual European Union countries, which would mean far fewer new consumers than what Canada would gain from the CETA.(Dymond & Hart 2002; CIA 2010a)

6.2.2 Dependence on US for trade

As previously mentioned, Canada is highly dependent on the US for trade and economic growth. (See Section 3.2.1)

6.2.3 Trade dependent nation

Foreign trade accounts for approximately 45% of Canada's GDP, which means that when economic times are tough elsewhere in the world and governments and consumers reduce spending, it has a direct impact on Canadian exports and therefore the Canadian economy and standard of living as well. (Global Economics Research 2010a)

6.2.4 Lack of a preferential trade agreement with the EU

Canada is one of only eight countries that has not signed a preferential trade agreement with the EU. (Cayo 2009)

6.2.5 Tariff and non-tariff barriers

Under the WTO multilateral trading system, trade in the majority of goods between Canada and the EU has become almost tariff-free with the remaining tariff barriers being the most difficult to negotiate. (Economist 2009) High tariffs remain in place in the agricultural, manufacturing and textile sectors and even though tariffs are low for many other goods and services, they nevertheless result in trade diversion due to the margins they add on the prices of goods. (CERT 2008)

Hornby (2007) discusses the challenges and barriers that stand in the way of greater market access including differences in regulatory and structural differences, tariffs and quantitative restrictions and differing product standards. Specific issues that have already arisen and caused controversy are agricultural subsidies and the seal hunt in Canada. (MacLaren 2009b) (Refer to Section 3.1 for further information regarding the scope of the CETA)

6.2.6 Structural differences

Structural differences and diverging regulatory frameworks are an existing weakness in the Canadian trade position vis-à-vis the EU. The institutional structure of the federalist nation of Canada gives provincial governments significant power over decision-making on certain issues.

Public procurement, for example, presents a unique stumbling block in the trade negotiations since it is under provincial jurisdiction and the Canadian provincial governments are reluctant to allow foreign companies to participate in their public procurement systems. (Deutsche Presse-Agentur 2008)

Laws governing employment, trade, taxation and other important matters differ significantly in Canada and the EU, which would result in much required compromise should negotiations remain ongoing.

6.2.7 Declining labour force

The growth rate of Canada's labour force is half of what it was 25 years ago, with 123,000 new labourers entering the workforce each year and potentially declining even further to 42,000 by 2010. (Engardio 2008) A declining labour force could result in declining GDP and pressure on public and social services in the near future.

6.2.8 EU-Canada trade underperforming

Cameron and Loukine (2001) undertook a study entitled 'Canada-European Union Trade and Investment Relations: the Impact of Tariff Elimination" which examined the impact of the elimination of tariffs between Canada and the EU and determined that EU-Canada trade has been underperforming and the elimination of tariffs would bring significant positive economic benefits to trading blocs, with the industrial sector gaining the most.

In 2008, the EU had stronger trading relationships with several emerging economies including Brazil, Russia, India and China (BRIC nations) as well as with Japan and South Korea, than it did with Canada. (DG Trade 2009a) (See Appendix D)

6.3 Opportunities

6.3.1 Access to new markets, economic growth opportunities and job creation

A CETA with the EU would give Canadian companies access to a market of approximately 500 million consumers, who are among the wealthiest in the world. Day states that a CETA would create jobs and open new opportunities for businesses in Canada, as well as providing economic benefits for numerous sectors, including aerospace, chemicals, wood products, automotive vehicles and parts, agricultural products, transportation and other business services. (DFAIT 2009b)

6.3.2 Increased competitiveness

According to Coyne (2008), Canada will become more competitive as a result of improved production efficiency, economies of scale and the reallocation of capital and labour to where it is most efficient. He also suggests that Canada would become more attractive than the US for investment since companies located in Canada would be able to export to the US and Europe tariff-free and would gain access to the world's 800 million wealthiest consumers. (Coyne 2008) Canada's competitiveness will also increase as a result of access to new technology, investment, production practices and skilled workers.

6.3.3 Improved trade position vis-à-vis the US

A CETA between Canada and the EU would result in greater diversity in trading partners for Canada and lower its dependence on the US for trade and economic growth and place Canada in a stronger position in future trade negotiations.

MacLaren (2009a) discuses the history of trade relations between Canada and the EU, NATO, GATT, the Uruguay Round, the formation of the WTO and the recent Doha round and draws attention to Canada's need for trade diversity and maintains that now is the best time for a transatlantic agreement.

Such deep economic integration as is currently being negotiated with the European Union, the world's largest and richest market, would lower Canadian dependence on the US as a trading partner and increase its competitive edge and negotiating power vis-à-vis the United States government and US companies.

6.3.4 Greater leverage in future negotiations with Asia

Economic power shifts from the West to the East means that a free trade agreement between Canada and the European Union would give the unified trading bloc greater leverage vis-à-vis Asia. (MacLaren 2009a) Furthermore, if pressure on Washington leads it to seek a similar agreement with the European Union, resulting in a NAFTA-EU trading bloc, then the leverage would be even greater. (MacLaren 2009a)

6.3.5 Easing future Canadian labour shortages

Engardio (2008) reasons that a free trade agreement with the European Union, which would enable the free movement of labour, would ease Canadian concerns regarding future labour shortages since the number of labourers in Canada is growing by only 123,000 a year and that number could drop to 42,000 by 2010.

6.3.6 Trade creation and gains from trade

Sarisoy Guerin and Napoli (2008) of the Centre for European Policy Studies, support the Canada-EU free trade agreement, citing significant potential economic gains for both parties and illustrating how past and current trading patterns would lead to increased trade if a CETA is signed. Sarisoy Guerin and Napoli (2008) discuss the impact of trade diversion from Europe to the United States after NAFTA was signed and argue that an agreement with Canada would increase European competitiveness in the Canadian market.

The European Commission and the Government of Canada (2008b) conducted a joint study to assess the costs and benefits of a closer EU-Canada economic partnership highlighting the benefits, which includes a potential 20% increase (€26 billion) in two-way exports as well as GDP gains of $12 billion (0.77% increase) by 2014 for Canada and GDP gains of $20 billion (0.08% increase) for the EU. According to MacLaren (2009a) total EU exports would increase by 24.3% (€17.1 billion) while Canadian exports would increase by 20.6%. (MacLaren 2009b)

Cameron and Loukine (2001) conducted a study on the effects of two different scenarios; first, the elimination of tariffs on goods except food and agriculture and second, the removal of all tariffs, and concluded that trade creation would exceed trade diversion for Canada and the EU. It is interesting to note that the projected gains from trade published in the study undertaken by the European Commission and the Government of Canada (2008) differs significantly from the study conducted by Cameron and Loukine (2001), which cites gains of trade for Canada worth $236 million (0.04% of GDP) and $772 million for the EU15 (0.01% of GDP).[1]

Kitou and Philippidis (2010) determined that a CETA between Canada and the EU would result in gains of trade worth €3,157 million for Canada and €4,336 million for the EU27, figures that are situated between those published by the two studies previously mentioned. The gains from trade resulting from the elimination of non-tariff barriers can be attributed to trade facilitation (Canada 67% and EU27 57%), allocative efficiency (Canada €889 million and EU27 €973 million), endowment effects (Canada €928 million and EU27 €1,504 million) and efficiency gains (Canada €897 million and EU27 €820 million[2]). (Kitou & Philippidis 2010)

Coyne (2008) argues that a CETA with the EU will result in lower prices and a wider selection of products for consumers.

6.4 Threats

6.4.1 Pressure on Canada-US trade relationship

Dymond and Hart (2002) state that a free trade agreement with the EU would put the Canada-US trade relationship, which is based on history and geography, at risk.

Given that the EU has already negotiated a free trade agreement with Mexico, a Canada- EU trade agreement would put pressure on the US to negotiate a similar

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[1] The study was conducted in 2001, prior to EU enlargement and thus only accounts for the EU15.
[2] Efficiency gains are higher for Canada due to its greater dependency on trade

agreement or risk being left out. (Economist 2009) If the US is unwilling or remains reluctant to improve its trading relationship with the EU of its own accord, such pressure will likely have negative effects on the Canada-US trade relationship.

6.4.2 Trade diversion

Cameron and Loukine (2001), whose study determined that trade creation would exceed trade diversion for Canada and the EU, also concluded that the US would experience a loss of $562 million as a result of trade diversion.

Kitou's and Philippidis' (2010) study on the trade diversion impacts resulting from a CETA revealed that the US would suffer per capita income losses of 0.02% (€1,626 million) while EFTA would experience losses of 0.05% (€212 million).

6.4.3 Marginal returns

Blomeley (2008) argues that the returns gained from a free trade agreement between Canada and the EU are marginal and warns that this is not the correct path to growth but rather time should be spent on furthering and improving the Canada-US relationship, which would have greater economic benefits for Canada.

An increase in trade seven years after the agreement is signed worth €25 billion annually appears rather unexceptional. According to Leblond (2008) the agreement would only bring slight returns, translating to an increase in wealth of €273 for every Canadian and €25 for every European if the gains were distributed evenly, which is doubtful.

Analysis

Canada is a leader among nations. Democratically governed and economically well developed, Canadian citizens are among the wealthiest in the world. A strong financial structure and a low debt to GDP ratio has enabled Canada to quickly recover from the recent global financial crisis, exemplified by strong economic indicators including high GDP, low inflation and interest rates and declining unemployment.

Canada is the world's 10th largest trading nation and it has a strong record of exporting goods, mainly due to its vast land area and abundant reserves of natural resources, which include oil, minerals, metals, forests and freshwater.

Canada's geographic position and shared border, as well as strong historical ties, has resulted in a close and integrated economic partnership with the United States, conducted within the framework of NAFTA. Although Canada has benefited significantly from its free trade relationship with the US and Mexico as demonstrated by job creation and increased trade, it has also created a situation whereby Canada has become increasingly dependent on the US for trade and economic growth.

Much of Canada's economic success can be attributed to its commitment to free trade and open markets. Canada is a trade dependent nation with foreign trade accounting for one in five jobs and 45% of GDP. While trade has made Canada financially strong it has also made it highly dependent on the US for trade and economic growth as approximately 68% of trade in 2008 took place between Canada and the US. According to mercantilist theory, which sought national power as a source of security and independence, Canada is in a very precarious and potentially dangerous position due to its reliance on another nation for its prosperity.

The vulnerability of Canada's position was dramatically illustrated during the recent economic crisis, which was instigated in the US. Difficult economic times resulting from a burst housing bubble led policy makers to begin adopting protectionist measures to ensure the economic security and independence of the nation. 'Buy American' provisions and country of origin labelling requirements became barriers to trade with the US and as consumer spending fell, the Canadian economy was indirectly impacted and pushed into a recessionary period. Although the 'Buy American' rhetoric eased and the Canadian economy began to recover, the financial crisis made obvious Canada's vulnerabilities based on its economic dependence on the US.

While the pressures of the crisis are easing, Canada's need to diversify its trading arrangements has become evident, so that future economic conditions or protectionist pressures in one country do not have such a significant impact on the Canadian economy.

As previously mentioned, Canada has committed to the liberalization of markets and pursues this agenda with the framework of the multilateral trading system under the World Trade Organization. It is understood that multilateral trade can bring the benefits of free trade to many countries simultaneously, leading to a global increase in living standards. While the WTO has been successful in reducing tariff barriers globally, the Doha round of trade talks has stalled on negotiations regarding non-tariff barriers. The slow pace of multilateral negotiations and the difficulty of addressing certain issues (i.e. non-tariff barriers) have given rise to an increase in bilateral trade talks.

In the midst of the financial crisis and the impact that increasing protectionism had on the Canadian economy due to its trade dependency on the US, as well as the breakdown of the Doha trade talks, Canada initiated negotiations for a bilateral trade agreement with the European Union. One important motive driving the EU towards the negotiating table with Canada after decades of disinterest has been the slow shift of power from the West to the East and the need for greater leverage in future negotiations with Asia.

Despite strong cultural, economic and political ties to individual Member States, Canada remains one of only 8 nations without a preferential trade agreement with the EU. The lack of an agreement can be attributed to a lack of interest of the part of the European Union as well as significant trade barriers. Existing barriers to trade between Canada and the EU include tariffs, which despite having been lowered under the multilateral trading system, remain sufficiently high to be a deterrent to trade as well as non-tariff barriers, such as regulatory and structural differences, technical barriers, customs procedures, rules of origin and numerous others. A particularly important issue is the political federal structure of Canada, which gives significant decision-making powers to provincial governments. Trade between Canadian provinces and territories is much more complicated than it is between the Member States of the European Union. A CETA would require significant institutional changes in Canada, something that is going to face considerable opposition.

Trade with the European Union would present Canada with many opportunities. Studies have indicated that Canada-EU trade has been underperforming with only 10.5% of Canada's total trade conducted with the EU. European Union trading relationships with various emerging markets are stronger than its current trade relationship with Canada.

Within the context of the Heckscher-Ohlin model, Canada has numerous factor endowments, mainly natural resources, for which it has a comparative advantage. However, Canada has low labour endowments and is facing labour shortages in the future. This problem would be addressed by a CETA with the EU, which has a large skilled labour force. The efficient allocation of other factor endowments, such as technology, investment and production processes, would also result from a CETA.

Canada would benefit from static gains from trade, including consumption gains in the form of access to new markets since Canadian producers would gain access to approximately 500 million new wealthy consumers. Production gains would result from economies of scales and improved efficiency.

Canada would also benefit from dynamic gains from trade resulting from increased competition and innovation, access to investment and the diffusion of technological advances from the EU to Canada.

Although estimates vary, the Government of Canada and the European Commission cite gains of $20 billion for Canada. A CETA would create new jobs and it would encourage investment in Canada, since any firm locating in Canada would have access to both the US and the EU markets. Canada's competitiveness would increase due to allocative efficiency, trade facilitation and endowment effects and its dependence on the US would lessen as it diversified its trading arrangements. Critics of the CETA have argued that the trade agreement would only result in marginal returns from trade and as such negotiations should be halted.

It is important to note that a CETA with the EU could threaten the close trading relationship Canada has with the US, which would be under pressure to sign a similar agreement with the EU since Mexico has already signed a FTA with the EU making the US the only NAFTA country without a FTA with the EU. However, should the US one day negotiate a similar trade agreement with the EU, then the transatlantic trading bloc would have significant leverage in future economic discussions with Asia.

Although the studies indicate that trade creation would be greater than trade diversion for Canada and the European Union resulting in gains from trade, the US would suffer economic losses from a CETA due to trade diversion. Canada should not seek a CETA with the EU if there is a possibility of it significantly hurting the Canada-US trade relationship. However, the gains from trade creation for Canada exceed the effects of trade diversion and this would suggest, according to Viner and Bhagwati, that the CETA is a beneficial trade agreement.

Canada must also take into consideration the fact that it is in a weak negotiating position relative to the EU and would find itself making considerable compromises throughout the negotiating process.

On the whole, it would appear that a CETA between Canada and the EU would be a promising arrangement that would provide Canada with significant economic gains as well as diversification of its trading arrangements, thereby lessening its dependence on the US for trade and growth. The gains, however, must be greater than the compromises Canada will have to make with the EU and the harmful effects that such an agreement would have on the Canada-US trade relationship.

Having analysed the CETA within the framework of the SWOT model, it is clear that the overall benefits far outweigh the potential threats. The bilateral trade agreement would address issues that cannot be discussed within the multilateral trading system and would bring great economic gains to Canadian consumers and businesses. It would be in the best interest of Canada for negotiations to continue and hopefully one day result in a Canada-European Union Comprehensive and Economic Trade Agreement that would see the free movement of goods, services, capital and labour across the Atlantic.

Conclusion

The Canada-European Union Comprehensive Economic and Trade Agreement is an historic accord that has set a precedent for future bilateral trade negotiations regardless of whether or not it is ratified. This dissertation provided an opportunity to gain a greater insight into the CETA and what it would mean for Canada.

The development of the CETA was examined with the context of the political and economic environment in which it is being negotiated. This led to a greater understanding of the different factors at play. Trade with third parties and between Canada and the EU was also discussed, which gave an understanding of the foundation upon which the respective trading blocs form their trade strategy and what it is they hope to achieve with the CETA.

The background of the CETA provided an understanding of what it is, its scope and Canada's motives for pushing this trade agenda.

The literature review provided a theoretical framework in which the CETA could be analyzed. It reviewed the trade theories of economists and outlined the arguments for both protectionism and liberalism. It also reviewed gains from trade as well as the benefits and drawbacks of multilateral and bilateral trade arrangements. Finally, the literature review presented the theories of trade creation and trade diversion as a tool for determining whether or not a bilateral trade agreement is beneficial.

The SWOT analysis enabled the examination of Canada's trading strengths in relation to the CETA and the EU as well as its weaknesses. It also illustrated the opportunities that CETA would bring to Canada, which are numerous, and the threats it would potentially present, which are minimal. The conclusion that was arrived at following an analysis of all the information determined that it would be important for the future growth of Canada for the negotiations to remain ongoing.

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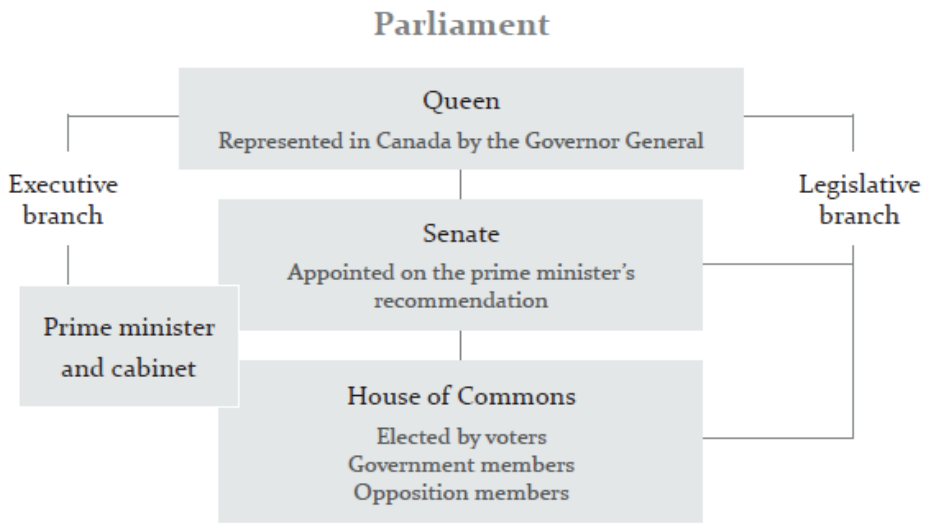
Appendix A: Canada's System of Government

Figure A1: Canada's System of Government



Source: (Forsey 2010, p.32)

Appendix B: Leading Exporters and Importers of Merchandise Trade in the World

Table B1: Leading Exporters and Importers of Merchandise Trade in the World (2008) including EU27 Member States and intra-EU Trade

The Major Importers				The Major Exporters				The Major Trader Partners			
Rank.	Imports	billion €	% World	Rank.	Exports	billion €	% World	Rank.	Imp.+Exp.	billion €	% World
	World	11,161	*100.0*		World	10,965	*100.0*		World	22,126	*100.0*
	EU27	4,180	*37.5*		EU27	4,015	*36.6*		EU27	8,195	*37.0*
1	USA	1,446.9	*13.0*	1	China	989.7	*9.0*	1	USA	2,313.5	*10.5*
2	Germany	813.4	*7.3*	2	Germany	989.2	*9.0*	2	Germany	1,802.7	*8.1*
3	China	729.6	*6.5*	3	USA	866.6	*7.9*	3	China	1,719.3	*7.8*
4	Japan	503.1	*4.5*	4	Japan	500.6	*4.6*	4	Japan	1,003.7	*4.5*
5	France	479.0	*4.3*	5	Netherlands	429.0	*3.9*	5	France	889.8	*4.0*
6	Utd. Kingdom	427.5	*3.8*	6	France	410.8	*3.7*	6	Netherlands	815.7	*3.7*
7	Netherlands	386.7	*3.5*	7	Italy	364.5	*3.3*	7	Italy	740.0	*3.3*
8	Italy	375.4	*3.4*	8	Belgium	323.8	*3.0*	8	Utd. Kingdom	738.9	*3.3*
9	Belgium	319.0	*2.9*	9	Russia	313.5	*2.9*	9	Belgium	642.8	*2.9*
10	Canada	302.4	*2.7*	10	Utd. Kingdom	311.4	*2.8*	10	Canada	612.3	*2.8*
11	South Korea	288.5	*2.6*	11	Canada	309.9	*2.8*	11	South Korea	561.3	*2.5*
12	Spain	272.6	*2.4*	12	South Korea	272.8	*2.5*	12	Russia	499.5	*2.3*

Source: (DG Trade 2009a)

Appendix C: Canada's Trade with Main Partners

Table C1: Canada's Trade with Main Partners, 2008

The Major Imports Partners

Rk	Partners	Mio euro	%
	World	302.533,5	100,0%
1	United States	160.102,7	52,9%
2	EU27	38.097,1	12,6%
3	China	29.822,6	9,9%
4	Mexico	12.515,8	4,1%
5	Japan	10.795,2	3,6%
6	Algeria	5.495,9	1,8%
7	Norway	4.430,0	1,5%
8	South Korea	4.219,6	1,4%
9	Malaysia	2.056,0	0,7%
10	Switzerland	1.957,3	0,6%
11	Angola	1.903,0	0,6%
12	Brazil	1.879,6	0,6%
13	Thailand	1.745,4	0,6%
14	Peru	1.732,6	0,6%
15	Saudi Arabia	1.664,9	0,6%
16	Iraq	1.611,9	0,5%
17	India	1.545,1	0,5%
18	Russia	1.476,1	0,5%
19	Chile	1.286,3	0,4%
20	Australia	1.164,4	0,4%

The Major Export Partners

Rk	Partners	Mio euro	%
	World	309.344,0	100,0%
1	United States	241.152,4	78,0%
2	EU27	23.264,5	7,5%
3	Japan	7.087,3	2,3%
4	China	6.747,4	2,2%
5	Mexico	3.734,7	1,2%
6	South Korea	2.446,8	0,8%
7	Norway	1.846,8	0,6%
8	Brazil	1.660,9	0,5%
9	India	1.518,0	0,5%
10	Australia	1.370,1	0,4%
11	Hong Kong	1.133,7	0,4%
12	Russia	960,9	0,3%
13	Indonesia	933,1	0,3%
14	United Arab Emirat	929,6	0,3%
15	Switzerland	821,4	0,3%
16	Turkey	797,3	0,3%
17	Saudi Arabia	649,7	0,2%
18	South Africa	593,3	0,2%
19	Venezuela	568,4	0,2%
20	Algeria	567,0	0,2%

The Major Trade Partners

Rk	Partners	Mio euro	%
	World	611.877,5	100,0%
1	United States	401.255,1	65,6%
2	EU27	61.361,6	10,0%
3	China	36.570,0	6,0%
4	Japan	17.882,5	2,9%
5	Mexico	16.250,6	2,7%
6	South Korea	6.666,4	1,1%
7	Norway	6.276,9	1,0%
8	Algeria	6.062,9	1,0%
9	Brazil	3.540,5	0,6%
10	India	3.063,1	0,5%
11	Switzerland	2.778,8	0,5%
12	Malaysia	2.586,4	0,4%
13	Australia	2.534,5	0,4%
14	Russia	2.437,1	0,4%
15	Saudi Arabia	2.314,6	0,4%
16	Thailand	2.203,7	0,4%
17	Angola	1.990,2	0,3%
18	Peru	1.979,0	0,3%
19	Chile	1.743,8	0,3%
20	Iraq	1.732,7	0,3%

Source: (DG Trade 2009a)

Appendix D: European Union Trade with Main Partners

Table D1: European Union Trade with Main Partners, 2008

The Major Imports Partners

Rk	Partners	Mio euro	%
	Extra EU27	1.552.372,5	100,0%
1	China	247.857,6	16,0%
2	United States	186.400,3	12,0%
3	Russia	173.617,2	11,2%
4	Norway	92.035,6	5,9%
5	Switzerland	80.106,1	5,2%
6	Japan	74.948,8	4,8%
7	Turkey	45.886,6	3,0%
8	South Korea	39.406,6	2,5%
9	Brazil	35.554,4	2,3%
10	Libya	34.233,1	2,2%
11	India	29.440,0	1,9%
12	Algeria	28.349,8	1,8%
13	Taiwan	24.063,0	1,6%
14	Canada	23.794,1	1,5%
15	South Africa	22.245,0	1,4%
16	Saudi Arabia	21.117,4	1,4%
17	Malaysia	17.514,4	1,1%
18	Kasakhstan	17.410,0	1,1%
19	Thailand	17.172,3	1,1%
20	Singapore	16.178,0	1,0%

The Major Exports Partners

Rk	Partners	Mio euro	%
	Extra EU27	1.309.435,1	100,0%
1	United States	249.595,3	19,1%
2	Russia	105.153,1	8,0%
3	Switzerland	97.742,1	7,5%
4	China	78.467,4	6,0%
5	Turkey	54.260,9	4,1%
6	Norway	43.700,4	3,3%
7	Japan	42.393,3	3,2%
8	United Arab Emirat	31.679,6	2,4%
9	India	31.540,2	2,4%
10	Brazil	26.353,7	2,0%
11	Canada	26.106,7	2,0%
12	South Korea	25.657,0	2,0%
13	Australia	25.186,7	1,9%
14	Ukraine	25.156,8	1,9%
15	Mexico	22.082,2	1,7%
16	Singapore	22.018,3	1,7%
17	Saudi Arabia	21.260,3	1,6%
18	Hong Kong	21.093,1	1,6%
19	South Africa	20.227,6	1,5%
20	Algeria	15.311,1	1,2%

The Major Trade Partners

Rk	Partners	Mio euro	%
	Extra EU27	2.861.807,6	100,0%
1	United States	435.995,5	15,2%
2	China	326.325,0	11,4%
3	Russia	278.770,2	9,7%
4	Switzerland	177.848,3	6,2%
5	Norway	135.736,0	4,7%
6	Japan	117.342,0	4,1%
7	Turkey	100.147,5	3,5%
8	South Korea	65.063,6	2,3%
9	Brazil	61.908,2	2,2%
10	India	60.980,2	2,1%
11	Canada	49.900,8	1,7%
12	Algeria	43.660,9	1,5%
13	South Africa	42.472,6	1,5%
14	Saudi Arabia	42.377,7	1,5%
15	Libya	39.969,8	1,4%
16	Ukraine	39.523,8	1,4%
17	Singapore	38.196,3	1,3%
18	United Arab Emirat	37.498,3	1,3%
19	Australia	36.399,5	1,3%
20	Mexico	35.896,3	1,3%

Source: (DG Trade 2009a)

Appendix E: Regional Shares of Canada's Trade in Goods and Services

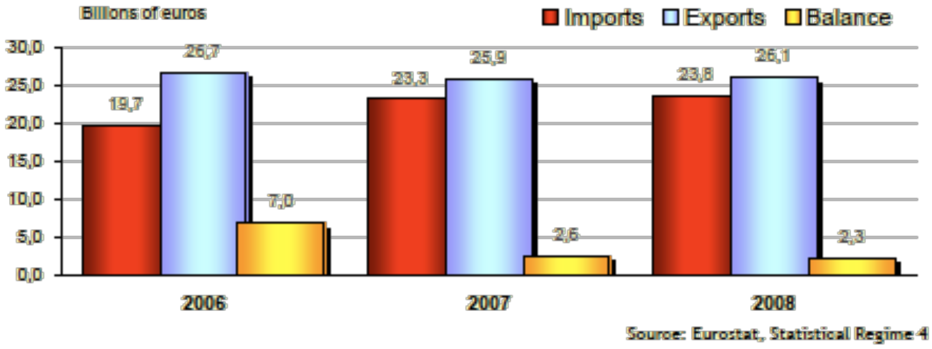
Table E1: Regional Shares of Canada's Trade in Goods and Services, 2004 and 2008
Percent

	Exports		Imports		Total Trade	
	2004	2008	2004	2008	2004	2008
World	100.0	100.0	100.0	100.0	100.0	100.0
US	78.5	73.0	67.1	62.3	73.1	67.8
EU	7.7	9.4	11.2	11.7	9.3	10.5
Japan	2.3	2.4	2.9	2.7	2.6	2.5
Other OECD	3.6	4.6	5.8	6.0	4.6	5.2
Non-OECD	8.0	10.6	13.0	17.4	10.3	13.9

Source: (Cameron 2009, p.39)

Appendix F: EU 27 Trade in Goods with Canada

Figure F1: EU 27 Trade in Goods with Canada, 2006-2008

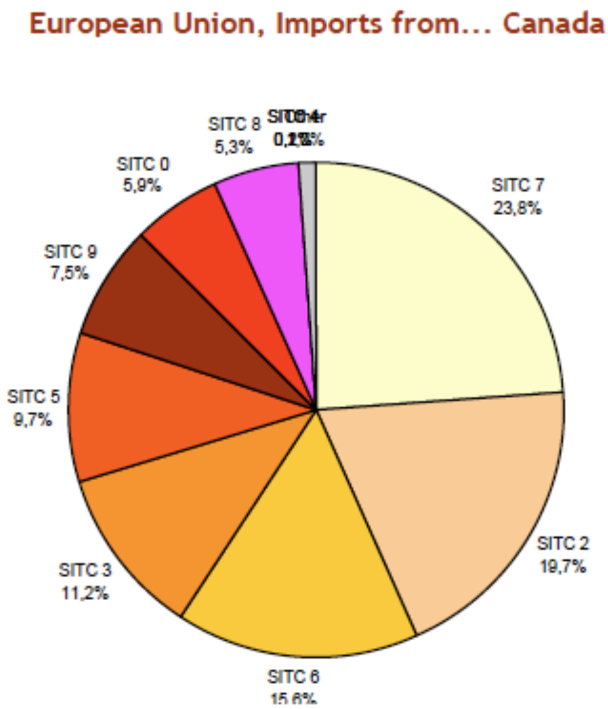


Source: (DG Trade 2009a)

Appendix G: European Union – Imports from Canada

Table G1: European Union – Imports from Canada 2008

SITC Codes	SITC Sections	Value (Millions of euro)	Share of Total (%)	Share of total EU Imports
	TOTAL	23.794	100,0%	1,5%
SITC 7	Machinery and transport equipment	5.655	23,8%	1,4%
SITC 2	Crude materials, inedible, except fuels	4.687	19,7%	6,9%
SITC 6	Manufactured goods classified chiefly by material	3.721	15,6%	2,1%
SITC 3	Mineral fuels, lubricants and related materials	2.665	11,2%	0,6%
SITC 5	Chemicals and related prod, n.e.s.	2.316	9,7%	1,9%
SITC 9	Commodities and transactions n.c.e.	1.786	7,5%	4,9%
SITC 0	Food and live animals	1.406	5,9%	1,9%
SITC 8	Miscellaneous manufactured articles	1.263	5,3%	0,6%
SITC 1	Beverages and tobacco	40	0,2%	0,6%
SITC 4	Animal and vegetable oils, fats and waxes	18	0,1%	0,2%

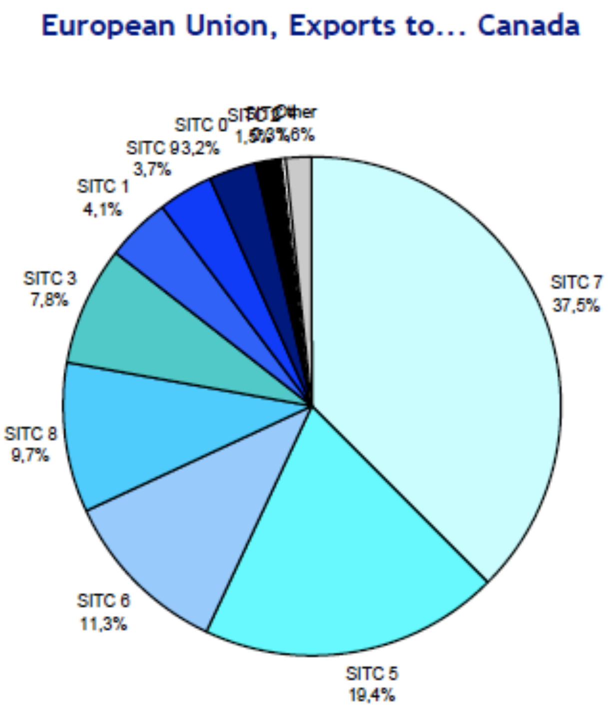


Source: (DG Trade 2009a)

Appendix H: European Union – Exports to Canada

Table H1: European Union – Exports to Canada

SITC Codes	SITC Sections	Value (millions of euro)	Share of Total (%)	Share of total EU Exports
	TOTAL	26.107	100,0%	2,0%
SITC 7	Machinery and transport equipment	9.794	37,5%	1,7%
SITC 5	Chemicals and related prod, n.e.s.	5.053	19,4%	2,5%
SITC 6	Manufactured goods classified chiefly by material	2.938	11,3%	1,6%
SITC 8	Miscellaneous manufactured articles	2.530	9,7%	1,9%
SITC 3	Mineral fuels, lubricants and related materials	2.032	7,8%	2,5%
SITC 1	Beverages and tobacco	1.061	4,1%	5,5%
SITC 9	Commodities and transactions n.c.e.	958	3,7%	2,6%
SITC 0	Food and live animals	835	3,2%	1,8%
SITC 2	Crude materials, inedible, except fuels	395	1,5%	1,4%
SITC 4	Animal and vegetable oils, fats and waxes	86	0,3%	2,8%



Source: (DG Trade 2009a)

Appendix I: Mercantilism and Protectionism

Mercantilism is defined as "economic nationalism for the purpose of building a wealthy and powerful state." (LaHaye 2008) The 'mercantile system' as it was termed by Smith (1776), emerged in the 16th century and spanned a period of more than 200 years. Historically, the economic policy of mercantilism sought wealth, economic growth and power through trade, by promoting exports and restricting imports.

The mercantile system emerged during an era of repeated military conflicts and colonization. Europe was also experiencing a period of expansion in trade, the proliferation of commerce and industry (as opposed to agriculture) and the spread of a monetary system of conducting transactions (as opposed to a barter system). (LaHaye 2008) Increasing the power of the state was important in order to grow and to protect itself and power was attained through the accrual of bullion. The role of government was to protect its class of merchants by means of subsidies and tax exemptions to develop and expand domestic production, while imposing tariffs and non-tariff barriers on imports, prohibiting exportation of tools, capital equipment and skilled labor in order to restrict the competitiveness of other states.

The mercantile system came to an end during the latter part of the 18th century following the publication of Adam Smith's *The Wealth of Nations,* (Smith 1776), which contested the theory of mercantilism and its premise that wealth is determined by the national supply of gold by illustrating the advantages of removing trade restrictions. However, protectionist policies re-emerged in the form of economic nationalism, which theorized that the economic interests of a state should be put ahead of those of individuals, supported by state action, in the late eighteenth and nineteenth centuries in Germany by Friedrich List and in the United States by Alexander Hamilton. (Balaam & Veseth 2004) Protectionist policies at the end of the 19th century resulted in World War I and they remained in use throughout the Great Depression and World War II. (LaHaye 2008)

Neomercantilism refers to the most recent policies that governments enact to protect their economic security and national independence. These include tariffs, and non-tariff barriers (NTBs), which are much more subtle that tariffs.

Tariffs are a government tax imposed on exports or imports and non-tariff barriers are a variety of policies other than tariffs whose function is to alter the flow of trade. (Husted & Melvin 2006, p.148) Tariffs can be ad valorem, that is, a tax that is a percentage of the selling price of the product, specific, a duty that is a fixed amount per unit sold or a combination of both. (Husted & Melvin 2006, p.152)

Non-tariff barriers include:

- Quota – limitation on the quantity or value of trade in a product (Husted & Melvin 2006, p.148)
- Subsidy – government assistance in the form of capital to a firm, industry or producer to promote exports and oppose imports. (Husted & Melvin 2006, p.148)
- Voluntary export restraint (VER) – informal agreement between two nations, where the exporting country limits the export of a good with the purpose of reducing trade disagreements. VERs are usually implemented

at the request of the importing country and are rarely voluntary. (Suranovic 2003)

- Government policies – For example, public procurement policies that favor domestic producers.
- Regulations and standards – examples include health and safety regulations, product standards, labeling and packaging standards, rules of origin, phyto-sanitary standards, certification, product classification, employment law and intellectual property legislation
- "Buy Nationally" campaigns

Arguments in favor of protectionism include:

- Infant industry protection – argues that new industries may temporarily require government protection from global competition in order to grow. (Husted & Melvin 2006, p.205)
- New Trade Theory – Krugman (1987) argues that certain industries must be protected so that they can grow and achieve economies of scale.
- Government revenue – Tariffs are a form of government revenue that is simple to collect and by which foreigners pay taxes rather than citizens thereby increasing the domestic standard of living. (Husted & Melvin 2006, p.199)
- Income redistribution – trade policy can be used as a tool to redistribute income in a country. (Husted & Melvin 2006, p.201)
- National defense and security – Smith (1776) argued that it is important to protect industries that are essential to the defense and security of a state

Appendix J: Absolute Advantage and Comparative Advantage

Absolute Advantage

Smith (1776) used the principle of absolute advantage to illustrate how trade between nations is more beneficial than restrictive mercantilist policies. Absolute advantage is "the ability of a country to produce a good using fewer productive inputs than is possible anywhere else in the world." (Husted & Melvin 2006, p.58) This is illustrated in the table below.

Table J1: Absolute Advantage as a Basis for Trade

	Country	
	A	B
Soybeans	3	12
Textiles	6	4

Numbers in the table denote labor required to produce one unit
Source: (Husted & Melvin 2006, p.58)

Country A can produce soybeans in less time than Country B while Country B can produce textiles in less time than Country A. Thus it is said that Country A has an absolute advantage in the production of soybeans while Country B has an absolute advantage in the production of textiles.

Comparative Advantage

Torrens' (1815) and Ricardo's (1817) principle of comparative advantage states that a country should export goods in which it has a relative advantage, even if another country is able to produce it more efficiently. Likewise, countries may choose to import goods that they are able to produce more efficiently than the country where it is being produced. (Irwin 2001)

Table J2: Comparative Advantage as a Basis for Trade

	Country	
	A	B
Soybeans	3	12
Textiles	6	8

Numbers in the table denote labor required to produce one unit
Source: (Husted & Melvin 2006, p.61)

In Table J2 above, Country A has the absolute advantage in soybeans and textiles. Country A is 4 times more efficient in the production of soybeans relative to country B but it is only 4/3 more efficient in the production of textiles. Therefore, since Country A's greatest absolute advantage is in soybeans, then it also has a comparative advantage in soybeans and Country B, having the least absolute disadvantage in textiles, has a comparative advantage in textiles. (Husted & Melvin 2006, p.61)

Heckscher (1918) and Ohlin (1933) put forward the theory that, since countries differ in their relative endowments of the factors of production (land, labor and capital, and given that goods differ in the amount of the factors of production that they require in their manufacture, then countries will have a comparative advantage in those goods whose inputs are plentiful locally, as relative costs are lower. Therefore, a country with a lot of land (compared with capital or labor) will have a comparative advantage in the production of goods that require large areas of land, such as agriculture, while a country with a large labor force should export labor intensive goods and finally, a country with large capital reserves, should export capital intensive goods.

Appendix K – Multilateral Trade System

The General Agreement on Tariffs and Trade and the World Trade Organization

The World Trade Organization (WTO) is located in Geneva, Switzerland. It has 153 member countries, which accounts for more than 97% of trade, (WTO 2009, p.7)

The Atlantic Charter was the early foundation of a new economic order that would be established at the end of the war with the intention of preventing long-standing tensions from erupting into renewed conflicts following the end of WWII. (Kelly & Grant 2005, p.15) Allied countries, including the United States and Britain, determined that moving away from mercantilist policies, which were protectionist in nature, towards open markets and free trade would prevent future instability in a world that was weary after two World Wars and a Great Depression.

The General Agreement on Tariffs and Trade (GATT), which regulated trade in goods, was written as a supplement to the International Trade Organization (ITO) and was only meant to be a provisional agreement. However, the ITO was never established as a result of rising protectionism in the US in 1948 and the GATT turned out to be the agreement upon which trade liberalization began. (Kelly & Grant 2005, p.15)

The World Trade Organization (WTO) replaced the GATT only in 1995, following the Uruguay Round of trade talks and now specifies the rules of global trade, becoming "the most powerful and dominant player in international trade." (Madeley 2000, p.3)

The multilateral system of trade created by the WTO possesses several core principles: non-discrimination, reciprocity, market access and fair competition. (Farrell 1999, p.1) Elements of these principles include:

- Most favored nation (MFN) – nations should treat all trading partners equally (Jawara et al. 2004, p.7)
- National treatment – Foreign and domestic products should be given equal consideration. (Jawara et al. 2004, p.8)
- Progressive reduction of trade barriers in a predictable (binding and transparency) and stable manner. (Jawara et al. 2004, p.8)
- Refrain from unfair trade practices, such as dumping

The WTO's main objective is to "help trade flow smoothly, freely, fairly and predictably" and it achieves this through the administration of trade agreements, provision of a forum for trade negotiations, settlement of trade disputes, review of national trade policies, assistance to developing countries on issues of trade policy through technical assistance and training programs and cooperation with other international organizations. (Publications 2004, p.12)

Bilateral Trade – Regional Trade Agreements/Preferential Trade Agreements

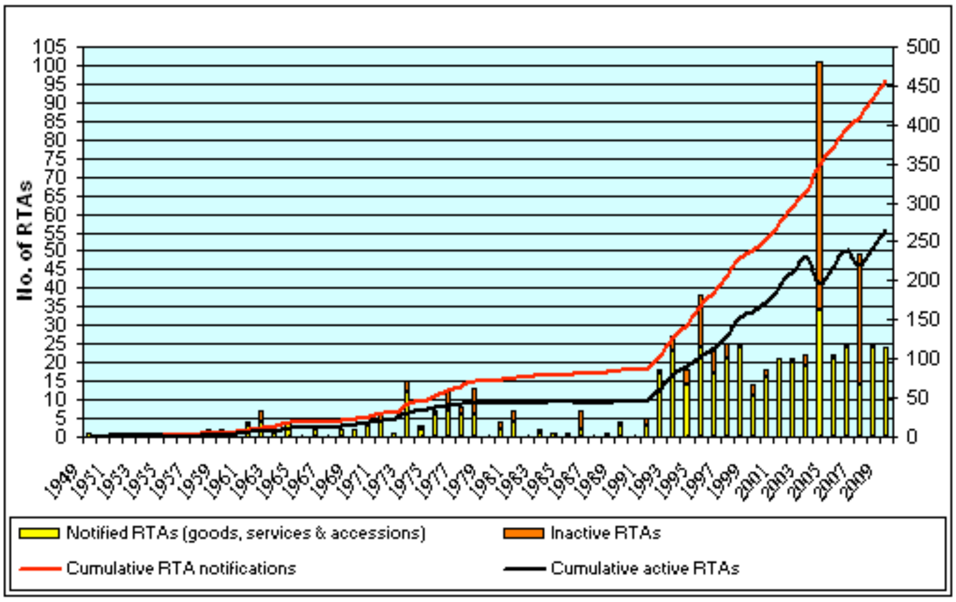
Preferential trade agreements can be arranged as a free trade area (FTA), such as the North American Free Trade Agreement (NAFTA) whereby several countries agree to remove trade barriers between one another but uphold trade barriers to countries outside the FTA, or as a customs union (CU) like the European Union (EU), which also seeks to eliminate internal trade barriers but forms a common trade barrier to countries outside the CU. (Husted & Melvin 2006, p.250)

The WTO (2010) permits the formation of bilateral and regional trade agreements, stating that they have the ability to support global free trade but it also acknowledges the fact that they can also negatively affect the trade interests of other nations. It introduced criteria for the formation of RTAs, such as:

- The agreement must improve trade flows within the RTA
- Reduction of tariffs and non-tariff barriers within member states
- The agreement must not increase barriers or make trade more restrictive for countries that are not signatories of the agreement

(World Trade Organization 2010)

Figure K1: RTAs notified to the GATT/WTO (1948-2009), including inactive RTAs, by year of entry into force.



Source: (World Trade Organization 2009a)