Understanding CETA

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CETA: An Opportunity for Portugal?

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CETA in an international context

- From the “Third Option” to CETA
  - Nixon Measures in 1971 and UK accession to the EC in 1972 led to “third option” – an agreement with the EC under Trudeau
  - CETA launched at the height of the postwar globalization era but coming into force under difficult circumstances:
  - Trump Measures looming and UK exit from the EU and implemented under Trudeau’s son
- CETA as a statement
  - Affirms open and rules-based trade and commitment to multilateralism
  - Contrast to the new reciprocal trade relations approach adopted by the Trump Administration
  - Increases binding of international commitments rather than signalling the unbinding of commitments

Macroeconomic Significance

- Conventional approach: general equilibrium analysis
  - Economic gains come from
    - international reallocation of production according to revealed comparative advantage – weak force
    - Intra-sectoral reallocation of production to more efficient firms – strong force
  - Economic context ignored: full employment of all resources
  - Not a forecast of actual implementation
- CETA in context of considerable economic slack and no pricing power:
  - Increases in quantities of trade, not prices
  - Capture of market share from third parties as well as substitution of bilateral imports fordomestic production
  - Limited if any cannibalization of exports to third parties to satisfy increased bilateral demand

Quantitative Analysis of Impacts

- Joint Study in 2008
  - GDP: 0.08% for the EU and 0.77% for Canada
  - Bilateral exports: 24.3% for EU to Canada and 20.6% for Canada to EU
  - Half the gains from services liberalization
  - Assessment of potential and rather optimistic although characterized as conservative and establishing a lower bound
- Trade Sustainability Impact Assessment (SIA) in 2011
  - GDP: 0.02% to 0.03% for the EU and 0.18% to 0.36% for Canada
- No study of CETA as negotiated has yet been published
  - Baier, Bergstrand and Clance (2015) gravity model-based estimate (private communication) of 0.02% welfare gain for the EU and 0.22% for Canada
  - Ciuriak Consulting study for Nova Scotia (unpublished) has 0.02% real GDP gain for the EU and 0.24% for Canada
- Modest macroeconomic impacts – balanced trade gains and not disruptive

CETA Features

- Tariff elimination – and binding!
- Horizontal goods facilitation does not improve on WTO TFA
- Sector-specific NTBs some gains but modest in scale
- Services: cross-border mainly in movement of persons and improvements on WTO bindings (squeezing "water in the GATS"
- FDI: minimal impact on already highly open system – key question of ISDS
- Procurement
- Areas for improvement:
  - De minimis rule for small shipments to improve utilization by SMEs and e-commerce
  - Substantive criteria for ISDS