THEORIZING THE CANADA-EU COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT

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The role of US hegemony in Canadian development is a central concern for Canadian political economists. This is especially evident in the context of trade, where critical scholars have written extensively about the Canada-USA Free Trade Agreement and the North American Free Trade Agreement. Yet Canada is a global actor in its own right; since 1997, it has signed nine other free trade agreements (FTAs) with partners as diverse as Jordan, Chile, and Costa Rica, not to mention the dozens of other trade-related agreements Canada has signed with Norway, South Africa, and others.[1] How do these agreements, which are negotiated between non-hegemonic actors, fit into the theoretical frameworks that dominate the Canadian political economy literature?

This paper is focused in particular on the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), a potentially significant FTA that is nearing completion. The paper has two main sections. Part one begins with an overview of the current state of Canada-EU economic integration. It then turns to CETA itself, first by providing a brief history of the deal and then by summarizing the agreement's potential economic and non-economic impacts. With this background established, the paper shifts in part two to a theoretical discussion of CETA's significance. The deal is assessed in the context of the two dominant theoretical streams in critical Canadian political economy: Canada as dependent periphery and Canada as imperialist core. The paper concludes by assessing the usefulness of each stream of thought moving forward, especially as bilateral FTAs play an increasingly prominent role in the global political economy.

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[1] Department of Foreign Affairs and International Trade, "Negotiations and Agreements," *Foreign Affairs and International Trade Canada*, last modified March 25, 2013, accessed April 15, 2013, http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/index.aspx.

PART ONE

The Current State of Canada-EU Economic Integration[2]

The EU's 27 member states have a combined population of more than 500 million people and a combined GDP of $17 trillion (USD), making it the single largest economic bloc in the world. Given the sheer size of the EU economy, it is understandably one of Canada's biggest economic partners. In addition to sharing close historical and political ties, Canada and the EU are significantly economically integrated. This economic relationship can be roughly divided into the categories of trade and investment.

Trade: The EU is Canada's second largest market; in 2011, exports to the EU totalled $42.4 billion (9.25% of Canada's total). In the same year, imports from the EU totalled $45.9 billion (10% of Canada's total).[3] Canada's trade volume with the EU trails significantly behind trade with the US (67% of Canada's total),[4] but is twice the size of trade with Canada's third largest trading partner, China.[5] Canada's trade with the EU grew at a rate of approximately 6.7% per year from 2005 to 2010, even as worldwide Canadian exports declined by 1.8% per year over the same period.[6] Top exports to the EU include gold, diamonds, uranium, iron ore, machinery, and aerospace products, while top imports include pharmaceuticals, vehicles, electronics, and light oil.[7] Some observers have thus concluded that Canada has "a notable disadvantage in terms

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[2] All values are in Canadian Dollars unless otherwise noted.
[3] Statistics Canada, "Canada's international trade partners, 2011," *Canada Year Book, 2012,* last modified December 24, 2012, accessed March 24, 2013, http://www.statcan.gc.ca/pub/11-402-x/2012000/chap/international/tbl/tbl0a-eng.htm.
[4] Ibid.
[5] European Commission and the Government of Canada, "Assessing the costs and benefits of a closer EU-Canada economic partnership: A Joint Study by the European Commission and the Government of Canada," *Foreign Affairs and International Trade Canada,* 2008, last modified January 8, 2013, accessed March 22, 2013, www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/eu-ue/study-etude.aspx, 5.1.4(8).
[6] Standing Committee on International Trade, *Negotiations Toward a Comprehensive Economic and Trade Agreement (CETA) Between Canada and the European Union* (Ottawa: Standing Committee on International Trade, 2012), 2.
[7] Department of Foreign Affairs and International Trade Canada, "Canada-EU Trade Agreement: Opening New Markets in Europe," *Foreign Affairs and International Trade Canada*, last modified January 15, 2013, accessed

of the… qualitative composition of trade”.[8] Trade with the United Kingdom comprises a third of Canada’s total trade with the EU, making it Canada’s closest trading partner by far among EU member states.[9] Despite the importance of the EU to Canada, however, Canada was only the EU’s 11th largest trading partner in 2010. Some observers have described the economic relationship as “under-traded”.[10]

Foreign direct investment: The EU is Canada’s second largest source of and destination for foreign direct investment (FDI), after the US. In 2010, Canadian investment in the EU totalled $145.7 billion, or 23.6% of all Canadian investment worldwide, while EU investment in Canada totalled $148.7 billion, or 26.5% of all FDI in Canada. Mutual investment is growing rapidly; between 1995 and 2006, the total volume of investment between the two economies grew by a factor of seven.[11] Unlike the trading relationship, which is unbalanced proportionate to GDP, the investment relationship is mutually significant; in 2010, Canada was the third largest source of investment into the EU (4.7% of total inward FDI) as well as the third largest recipient (4.8% of total outward FDI).[12]

In sum, Canada and the EU currently experience a large (and growing) degree of economic interaction that goes well beyond “shallow integration”.[13] By most measures, Canada is more exposed to the EU than the other way around—as the junior economic partner this is to be expected—but the degree of exposure is different in terms of trade versus investment.

March 22, 2013, www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/eu-ue/can-eu.aspx. See also Standing Committee on International Trade, *Negotiations*, 2.

[8] Jim Stanford, *Out of Equilibrium: The Impact of EU-Canada Free Trade on the Real Economy* (Ottawa: Canadian Centre for Policy Alternatives, 2010), 5.

[9] Statistics Canada, "Canada's international trade partners.”

[10] European Commission and the Government of Canada, “Joint Study,” 5.1.4(9).

[11] Ibid., 5.1.4(11).

[12] Eurostat, "Foreign direct investment statistics," *Eurostat: Statistics Explained*, European Commission, last modified September 27, 2012, accessed March 26, 2013, epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics.

[13] Kurt Hübner, ed. *Canada and the EU: shaping transatlantic relations in the twenty-first century* (New York: Routledge, 2011), 6.

Whereas the trading relationship is proportionate to GDP, Canada and the EU experience a surprisingly high degree of mutual investment. Canada is punching above its weight in terms of FDI.

CETA Timeline

CETA's precursor, the Canada-EU Trade and Investment Enhancement Agreement (TIEA), was launched at the 2004 Canada-EU summit in Ottawa. This earlier round of talks was put on hold in 2005 as both parties waited for the completion of the Doha Trade Round. After the Doha talks failed to progress at the expected speed, however, the TIEA was revived in the form of CETA at the 2007 Canada-EU summit in Berlin.[14] There negotiators commissioned an exploratory report which was published in 2008 as the *Joint Study on Assessing the Costs and Benefits of a Closer EU-Canada Economic Partnership*, which concluded that an agreement would ultimately be beneficial for both parties. A follow-up report confirming the joint study, titled the *Canada-European Union Joint Report: Towards a Comprehensive Economic Agreement*, was published in March of 2009, and formal negotiations between Canada and the EU commenced in May of that year.[15] The initial deadline set for late 2011 has been extended several times, but negotiators now expect the deal to be concluded in the first half of 2013. Eleven rounds of negotiations have taken place so far.

Expected Impact of CETA

According to the 2008 joint study conducted by the EU and the government of Canada, CETA would boost GDP by "€11.6 billion in the EU (or 0.08% of GDP) and €8.2 billion in Canada (or 0.77% of GDP)".[16] Therefore, officials and critics agree, "although [the level of

[14] Ibid., 4.
[15] Standing Committee on International Trade, *Negotiations*, 3.
[16] European Commission and the Government of Canada, "Joint Study," 5.2.3(23).

economic activity in] both economies rises by a comparable amount in absolute terms”,[17] “the Canada-EU CETA negotiations are likely to have a greater impact on Canada”.[18] Canada’s Minister of International Trade has similarly stated that CETA would “add $12 billion per year to Canada’s economy”.[19] Critics question these official predictions, however, which they say are merely “an *assertion* that free trade will produce mutual economic gains, not a *demonstration* that this will be the case”.[20] According to estimates cited by the Council of Canadians, CETA would provide a more modest “GDP boost of between one-quarter and one-half of [the officially predicted] amount, or between $3 billion and $6 billion”.[21]

Putting the challenge of macroeconomic forecasting aside, the specific terms of the deal are worth investigating in more detail. Only by understanding the potential qualitative impact of CETA in all of the areas covered by the agreement can a robust theoretical understanding be put forward. Six of the most important areas from a Canadian perspective are outlined below.

Manufacturing and trade: CETA contains the trade liberalization provisions expected of any contemporary free trade agreement. By removing tariffs, negotiators hope to improve market access to goods and services, although the economic logic for Canada is questionable. According to critics, reducing tariffs will merely exacerbate Canada’s growing trade deficit in high-value goods[22] while entrenching a growing dependence on resource exports.[23] Reinforcing “an

[17] Ibid.
[18] Standing Committee on International Trade, *Negotiations*, 8.
[19] Ibid., 7.
[20] Stanford, *Out of Equilibrium*, 6.
[21] Stuart Trew, *The CETA deception: how the Harper government's public relations campaign misrepresents the Canada-European Union comprehensive economic and trade agreement* (Ottawa: Council of Canadians, 2012), 1-2.
[22] Daniel Drache and Stuart Trew, "The politics and pitfalls of the Canada-EU Comprehensive Economic and Trade Agreement," in *Europe, Canada and the Comprehensive Economic and Trade Agreement*, ed. Kurt Hübner (New York: Routledge, 2011), 86.
[23] John Jacobs, *Straightjacket: CETA's Constraining Effects on Ontario* (Toronto: Canadian Centre for Policy Alternatives, Ontario Office, 2012), 6.

imbalanced trade relationship where [Canada] exports raw resources to the EU and imports high-value manufactured goods" may also lead to "substantial job losses" for Canadians.[24]

Government procurement: The EU is pushing aggressively for access to Canadian procurement markets at the federal, provincial, and municipal level. According to advocates, opening procurement would lead to "very substantial cost savings" for Canadian governments.[25] Critics, on the other hand, contend that opening up procurement would mean sacrificing one of the most important development tools that municipal and provincial governments have at their disposal.[26] Moreover, since EU procurement markets are already relatively open, Canadian firms have little to gain from mutual liberalization; the benefits of opening procurement through CETA "run largely one way – to EU companies".[27]

Intellectual property: Intellectual property (IP) is another area where EU negotiators are demanding concessions from Canada. CETA would strengthen copyright protections, increase recognition of European geographical indicators, and strengthen pharmaceutical patents (thereby delaying the availability of new generic drugs), among other changes. Proponents believe stricter IP laws will ensure a "long term domestic R&D presence"[28] and provide better protections for artists and entertainers.[29] The Canadian Generic Pharmaceuticals Association, however, argues that CETA would add "$2.8 billion annually to Canada's prescription drug bill" and move pharmaceutical R&D overseas.[30] Others groups are concerned about CETA's impact on Internet

[24] Trew, *The CETA deception*, 1.
[25] Don McIver, *Selling Ourselves on Self-Interest: Will a free trade agreement with Europe help us see the light?* (Halifax, NS: Atlantic Institute for Market Studies, 2011), 2.
[26] Jacobs, *Straightjacket*, 8.
[27] Drache and Trew, "Politics and pitfalls," 94.
[28] McIver, *Selling Ourselves*, 2.
[29] Drache and Trew, "Politics and pitfalls," 89.
[30] E&B Data, *EU pharmaceutical intellectual property proposals in the negotiations for a Comprehensive Economic and Trade Agreement (CETA): potential impact on the generic pharmaceutical industry in Canada: a study* (Toronto: Canadian Generic Pharmaceutical Association, 2011), 5-6.

freedom, since the agreement would restrict the sharing of content and could even criminalize some common Internet activities.[31]

Agriculture: Agriculture is one of the most controversial and still unsettled areas covered by CETA, and it may very well be a "game-changer" in the final text.[32] At issue is Canada's supply management regime, which critics consider "obsolete" and detrimental to Canadian consumers.[33] The Canadian agri-food sector considers the EU to be "an important strategic market",[34] and appears willing to compromise on supply management if it means increased access to the EU. The government of Canada, however, is vigorously defending the regime.[35]

Investor-state arbitration: CETA contains wording similar to NAFTA's now infamous Chapter 11 provisions, which makes it possible for foreign investors to settle disputes with governments directly via an arbitration process. These provisions are considered necessary to create a favourable business environment that protects foreign direct investment, which, as suggested above, is of substantially greater value to Canada and the EU than actual trade in goods and services. The inclusion of these terms in CETA has drawn fierce backlash from critics who believe investor-state arbitration undermines the government's ability to act in the public interest. There are two main critiques. First, investor-state arbitration reduces some domestic policy arenas, such as environmental law and health law, to a legal second class; these non-economic policy areas are reconstituted as "barriers to trade" and subjected to the jurisdiction of

[31] Catherine Hart, "Why CETA is bad for Canadian Internet Users," *OpenMedia.ca,* last modified July 24, 2012, accessed March 25, 2013, http://openmedia.ca/blog/why-ceta-bad-canadian-internet-users.
[32] Drache and Trew, "Politics and pitfalls," 87.
[33] McIver, *Selling Ourselves*, 2.
[34] Standing Committee on International Trade, *Negotiations*, 11.
[35] Ibid., 12.

international tribunals.[36] Second, it results in a chilling effect that discourages governments from enacting policy in the public interest.[37]

Environmental protection: Due to the threat of investor-state arbitration, CETA will "negatively impact [Canada's] ability to enact environmental regulation".[38] Although there are few terms in the deal that address the environment directly, CETA will generally add to the series of "serious impediments that now exist under NAFTA and WTO agreements to establishing effective measures to combat climate change".[39]

On balance, the potential economic gains for Canada are minor and the potential non-economic costs are concerning, even if they aren't foregone conclusions. A fraction of a percentage of GDP growth is questionable justification for the immense resources being poured into these negotiations by the government of Canada, especially in the face of vocal opposition from civil society organizations, academics, and opposition parties. Indeed, observers from all sides have concluded that CETA will have a "modest economic impact",[40] that CETA provides "negligible economic benefits",[41] and that the "economic case is simply not there for a Canada-EU free trade deal".[42] Therefore, understanding the motives for and potential long-term consequences of the agreement requires a theoretical framework of Canadian economic development. The task of the next section is to situate CETA within the dominant theoretical streams in Canadian political economy to better understand the agreement's significance.

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[36] Kyra Bell-Pasht, *Report on the environmental impact of the Canadian and European-Union comprehensive economic and trade agreement ('CETA')* (Toronto: Canadian Environmental Law Association, 2011), 29.
[37] Jacobs, *Straightjacket*, 7.
[38] Bell-Pasht, *Report*, 5.
[39] Steven Shrybman, *Potential impacts of the proposed Canada-European Union comprehensive economic and trade agreement (CETA) on the pace and character of oil sands development: a legal opinion* (Ottawa: Indigenous Environmental Network, Council of Canadians, and Friends of the Earth Europe, 2010), 22.
[40] McIver, *Selling Ourselves*, 4.
[41] Hübner, *Canada and the EU*, 6.
[42] Drache and Trew, "Politics and pitfalls," 94.

PART TWO

Dominant approaches to critical Canadian political economy

Very broadly speaking, critical Canadian political economy since the 1960s has tended to follow one of two traditions: Canada as dependent periphery or Canada as imperialist core. The former, which is based on the well-known 'staples thesis' developed by Harold Innis, was popularized by Mel Watkins and Kari Levitt and has had a lasting impact on the work of, among others, Glen Williams and Jim Stanford. The latter, which follows in the Marxist tradition, had Leo Panitch as one of its early advocates and now includes the likes of Paul Kellogg and Jerome Klassen.

The first tradition understands Canada's global position primarily in relation to the economic dominance of the United States. As Watkins first argued, Canada is a "small and open economy" that survives primarily through the export of resources (staples) and the import of manufactured goods.[43] Rather than diversify, staples-based economies tend to remain one-dimensional, since resource exports to international markets make domestic processing and manufacturing unnecessary and/or uncompetitive. Similarly, Levitt argued that Canadian reliance on US foreign direct investment (FDI) and the subsequent rise of branch plants stunted autonomous economic development, which inculcated underdependency.[44] Consistent with Wallerstein's world-systems approach, both Watkins and Levitt agree that Canada was and remains a peripheral country relative to the global capitalist core, which is centred on the US. More recent interpretations of the Canadian dependency argument suggest that despite some structural diversification in the Canadian economy, the country remains fundamentally

[43] Melville H. Watkins, "A staples theory of economic growth," *Canadian Journal of Economic and Political Science* 29.2 (1963): 157.
[44] Kari Levitt, *Silent surrender: The multinational corporation in Canada* (Toronto: Macmillan Company of Canada, 1970).

dependent on the export of staples (increasingly energy) and the import of manufactured goods. According to contemporary writers in this tradition—including Watkins himself, who continues to assert that "the staple theory needs to be taken seriously"[45]—Canada's neoliberal economic policy, as embodied by free trade agreements, has "ratified and facilitated" the "resource-led restructuring of Canada's economy".[46] These critics argue that comprehensive free trade agreements further entrench regressive economic restructuring in Canada, thereby exacerbating Canada's dependency on the imperial core.

The second major stream in critical Canadian political economy takes explicit issue with the first. Rather than understanding Canada as internally homogenous and existing in the periphery or semi-periphery of the global system, writers in this tradition emphasize the class dynamics of Canadian capitalist development. According to Leo Panitch, Canada's economic development has been shaped by conflict between a domestic capitalist class bent on accumulation and a working class intent on resisting exploitation.[47] According to writers like Panitch, Canada's class structure is that of an advanced capitalist economy, not that of a peripheral or underdeveloped country. Moreover, the Canadian state has acted precisely as Marx said a capitalist state should: by facilitating the accumulation of capital while maintaining socio-economic stability. Contemporary Marxist writers pick up this line of reasoning, arguing that Canada is simply not an underdeveloped country.[48] Instead, Canada has a domestic capitalist class that is both strong and autonomous on the global stage. For this reason, writers such as

[45] Melville H. Watkins, "Comment: Staples Redux," *Studies in Political Economy* 79 (2007): 224.
[46] Jim Stanford, "Staples, deindustrialization, and foreign investment: Canada's economic journey back to the future," *Studies in Political Economy* 82 (2008): 7.
[47] Leo Panitch, "Dependency and class in Canadian political economy," *Studies in Political Economy* 6 (1981).
[48] See, for example, Paul Kellogg, "Kari Levitt and the long detour of Canadian political economy," *Studies in Political Economy* 76 (2005).

Klassen have argued that Canada is an imperialist power in its own right.[49] Canadian capitalists invest as much abroad as those investing in Canada, for example, and Canada plays an outsized role in institutions of global economic governance such as the G8. According to contemporary writers in this critical tradition, free trade is a key component of the liberal capitalist ideology that is negotiated by states at the behest of the capitalist class.

Both streams offer an understanding of Canada's position in the global political economy and provide potentially useful frameworks for understanding CETA. The following section applies these theoretical approaches to the deal, as well as briefly comparing them to the current academic consensus on CETA.

Understanding CETA: Canadian theoretical perspectives

Following the staples tradition, the dependency perspective views CETA as entrenching Canada's role as a resource exporter and inculcating a greater reliance on manufacturing imports. As described in part one, Canada-EU trade is already qualitatively imbalanced; the most significant exports to the EU are unprocessed resources, such as gold and petroleum, while the majority of imports are high value-added manufactured goods, such as vehicles and pharmaceuticals. This qualitative trade imbalance has been exacerbated by the overvalued Canadian dollar, which has gained significantly on the Euro over the past five years. High global commodities prices have made Canadian resource extractors immensely profitable, and the resulting inflow of investment—rather than a substantial increase in either productivity or output—has driven up the dollar. Canada's struggling manufacturers have been hit especially hard by this rise because they are increasingly uncompetitive as exporters, leading to layoffs and further reducing output. The overvalued Canadian dollar is both "a consequence and a further

[49] Jerome Klassen, "Canada and the new imperialism: The economics of a secondary power," *Studies in Political Economy* 83 (2009).

cause of [this] structural regression".[50] Because the deal would aggravate this existing tendency, the long-term qualitative trade gains from CETA flow overwhelmingly to the EU. There is a significant incentive for the advanced manufacturing centres of Europe to "[intensify] the trade relationship with [Canada's] resource-based economy",[51] because it will ensure a reliable supply of resources to be processed in the EU. Moreover, since CETA will liberalize markets, those manufactured goods will now have even greater access to Canadian consumers. In sum, staples theory suggests that CETA will reinforce the EU's role as manufacturing exporter. Canada, on the other hand, will reinforce its "inferior position [as primary resource extractor]… in the global division of labour".[52]

The dependency perspective is less salient, however, when foreign direct investment is considered. Since the new Canadian political economy (NCPE) school rose to prominence in the 1970s with an alarmist message of FDI-induced underdevelopment, Canada has largely reversed the trend. Between 1970 and 2000, Canadian net FDI improved steadily from a deficit of approximately $100 billion to a surplus of more than $50 billion.[53] As Paul Kellogg notes, Canada now has the "classic [investment] profile of an imperialist power".[54] The large and growing level of Canadian investment in both the US and EU complicates the characterization of Canada as a simple resource exporter as described by the staples theorists; the NCPE tradition that presumes perpetual Canadian subservience to US FDI is simply not credible given this investment profile. Indeed, since Canadian investment in both the US and EU is just as large as American and European investment in Canada, Canada's investment relationships can hardly be described as 'dependent'. Consequently, *in the context of investment*, CETA will not inculcate

[50] Ibid., 24.
[51] Kurt Hübner quoted in Drache and Trew, "Politics and pitfalls," 85.
[52] Ibid.
[53] Kellogg, "Kari Levitt," 48.
[54] Ibid.

greater dependency on an imperial, capitalist core. At most, CETA acknowledges Canada's decreasing reliance on US investment and encourages further Canada-EU integration. But the deal doesn't do much to alter existing trends. As noted in part one, the degree of mutual investment between Canada and the EU is already growing faster than total investment in either Canada or the EU. CETA will not change this.

Overall then, the usefulness of the dependency approach in critical Canadian political economy as it applies to CETA is mixed. The general claim, that CETA will exacerbate Canada's dependency on the centres of global capitalism, to the detriment of autonomous, sovereign development, has only partial validity. Admittedly, the deal would likely accelerate on-going regressive economic restructuring in Canada by prioritizing highly profitable resource extraction over uncompetitive manufacturing. The qualitative trade imbalance between Canada and the EU will not be corrected by CETA. However, trade is not the whole story. One of the few areas where Canada stands to gain from CETA is in foreign direct investment, due to the disproportionate amount of Canadian FDI already in the EU. Rather than entrench underdependency, as the NCPE literature argued in the 1970s, further financial liberalization will likely strengthen Canada's already positive international investment profile.

A class-based analysis of CETA offers a more complete picture than the dependency approach for two reasons: first, instead of assessing the costs and benefits for "Canada" as a homogenous whole, it disaggregates the groups within Canadian society that are affected by the deal; second, it offers a clear explanation for the underlying motives of negotiators. First, as suggested above, CETA would exacerbate regressive restructuring of the Canadian economy towards resource extraction and away from manufacturing, which has already resulted in massive manufacturing job losses over the past decade. Although the resource sector is booming, it is not a net job creator—some estimates suggest the ratio of manufacturing jobs lost to resource jobs created as a result of the boom is 15 to 1.[55] Canadian workers and citizens will also feel the negative repercussions of this 'improved investment environment' through the erosion of labour regulations, which may reduce wages and undermine unions; through the erosion of environmental regulations; through more expensive generic drugs; through reduced Internet freedom; and through reduced policy autonomy at all three levels of government. Even food security could become an issue if the supply management regime is changed. Canadian investors, on the other hand, stand to gain from greater access to the European financial market. Capital mobility is a guiding principle of CETA; both negotiating parties are expected to "commit to the removal of any restrictions on the free movement of capital that now exist",[56] which would likely increase an already substantial amount of mutual FDI. The key difference here from the dependency model outlined above is that, in a class-based model, Canada both gains *and* loses due to CETA. The benefits and losses are merely distributed disproportionately to favour capital and to undermine social interests including labour, the environment, and democracy. The inclusion of investor-state arbitration in CETA is perhaps the clearest embodiment of this class conflict, because it explicitly raises the concerns of capital above social interests.

Second, a class-based analysis provides a motive for negotiators. The role of the capitalist state, according to this approach, is to facilitate the accumulation of capital while maintaining a minimum level of social stability.[57] Following in the Marxist tradition, this theoretical perspective suggests that the Canadian and European states are negotiating CETA at the behest

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[55] Greg Quinn, "Oil sands boom bypasses Ontario: 15 factory jobs lost for every one created in resources," *Financial Post*, last modified January 13, 2011, accessed April 17, 2013, http://business.financialpost.com/2013/01/11/oil-sands-boom-bypasses-ontario-15-factory-jobs-lost-for-every-one-created-in-resources.

[56] Martha O'Brien, "Canada, capital movements, and the European Union: Some tax implications," in *Europe, Canada and the Comprehensive Economic and Trade Agreement*, ed. Kurt Hübner (New York: Routledge, 2011), 220.

[57] Leo Panitch, "The role and nature of the Canadian state," in *The Canadian state: political economy and political power*, ed. Leo Panitch (Toronto: University of Toronto Press, 1977).

of their respective capitalist classes. This theoretical proposition is corroborated by the significant degree of lobbying that has guided CETA since its inception. As Cornelia Woll explains, pro-CETA business groups exist at both the domestic and supranational level in Europe and they have been actively involved in shaping the trade agenda.[58] EU officials openly admit that their trade policy is designed to "benefit business".[59] In Canada, the business lobby has been even "more sustained and more visible" than in Europe, with powerful groups like the Canadian Council for Chief Executives (CCCE) providing "relentless support" for trade negotiations.[60] Critics suggest that the influence of capital goes beyond lobbying, arguing that CETA is actually "made by, and for, multinational companies" who plan to "cash-in" on the erosion of "laws, regulations and other policies that serve important social goals".[61] These critics believe that the influence of pro-corporate lobbying distorts trade, which should serve the national interest, "into serving the interests of big multinationals".[62] An anti-CETA lobby does exist, but it has been marginalized in public debates and largely ignored by negotiators. Woll warns, however, that business interests alone are an insufficient explanation for Canada and the EU's neoliberal trade agendas.[63] Indeed, as Marx himself noted, the capitalist state must perform its coordinating function somewhat separately from the capitalist class in order to maintain both legitimacy and stability.[64] Therefore, the free trade push from government is more than a response to exogenous pressure; it also stems from an endogenous pro-capitalist approach to economic management. As a variety of critical academics have argued, the Canadian government, regardless of the party in

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[58] Cornelia Woll, "Who scripts European trade policies? Business-government relations in the EU-Canada partnership negotiations," in *Europe, Canada and the Comprehensive Economic and Trade Agreement*, ed. Kurt Hübner (New York: Routledge, 2011), 46.
[59] Ibid., 47.
[60] Ibid., 53.
[61] Council of Canadians, *CETA and Corporate Lobbying: A trade deal by – and for – multinational corporations* (Ottawa: Council of Canadians, 2012), 1.
[62] Ibid., 2.
[63] Woll, "Who scripts European trade policies?" 54.
[64] Panitch, "The role and nature," 4.

power, has promoted a neoliberal trade agenda for decades.[65] In the context of CETA, the state is balancing its accumulation function with its legitimation function by framing the deal as beneficial for Canada on the whole, even though, as Kurt Hübner observes, "the expected positive net benefits of [the] agreement were meant to be a sideshow for the public".[66] This analysis is consistent with Rianne Mahon's classic argument that Canadian business interests drive government policy systemically, not openly, through a preferential structure of representation.[67]

In sum, according to a class-based political-economic analysis, CETA is motivated by the financial capitalist classes in both Canada and the EU that are seeking to expand opportunities for capital accumulation. Due to the disproportionate amount of Canadian FDI in Europe already, Canadian capitalists will likely benefit from the deal, if only slightly, through even greater investment opportunities. The significant costs of deal, on the other hand, will be experienced disproportionately by the working and middle classes, particularly those in manufacturing or other industries that have been indirectly decimated by the resource boom. Labour, the environment, and other social concerns are all threatened by CETA, yet these 'special interests' are underrepresented in negotiations. The state, *à la* Marx, is working to facilitate expanded capital accumulation while maintaining the guise of legitimacy through a discourse of the public interest. Even though the benefits of CETA will flow overwhelmingly to the already wealthy and the costs will be absorbed by everyone else, government negotiators vehemently maintain that CETA "will be signed only if it is in the best interests of Canadians".[68]

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[65] Ricardo Grinspun and Robert Kreklewich, "Consolidating Neoliberal Reforms: "Free Trade" as a Conditioning Framework," *Studies in Political Economy* 43 (1994).
[66] Hübner, *Canada and the EU*, 321.
[67] Rianne Mahon, "Canadian public policy: the unequal structure of representation," in *The Canadian state: political economy and political power*, ed. Leo Panitch (Toronto: University of Toronto Press, 1977).
[68] Department of Foreign Affairs and International Trade Canada, "Canada-EU Trade Agreement."

This perception of a 'common good' for 'all Canadians' is perhaps the greatest weakness of the dependency approach and the greatest strength of a class-based analysis. Contrary to the assumptions of some dependency theorists, the outcomes of trade are not experienced homogenously by all Canadians. CETA may actually *reduce* Canadian economic dependency because it encourages integration away from the US, *despite* reproducing Canada's qualitative trade imbalance. This prerogative, however, is intended to protect the vested capitalist interests in Canada, which are at risk of contagion from US weakness, not the majority of Canadians, who currently rely on North American integration for their livelihoods. CETA is a phenomenon that simply cannot be theorized by the classic dependency approach centred on US trade and FDI. Understanding Canada's pivot away from the US requires recognition of competing class interests.

The mainstream academic consensus on CETA suffers from the same deficiencies as the critical dependency approach. As a growing body of international relations literature since the 1980s has argued, the US may be experiencing a relative decline from its uncontested hegemony in the post-war period to its uncertain place in today's multipolar, globalized world. Unprecedented growth in the 'Global South', particularly China, and European unification under a single currency have both posed significant threats to the US' previously unchallenged leadership in international economic and geopolitical affairs. Therefore, tight economic integration with the US poses a serious threat to Canada's long-term macroeconomic well-being. The majority of the existing CETA literature takes this premise as its starting point. Writers such as Kurt Hübner understand the deal as a deliberate Canadian strategy of reducing unilateral dependence on the US, particularly in the wake of the recent financial crisis.[69] Paul Kellogg

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[69] Hübner, *Canada and the EU*, 321.

agrees that US decline, both real and perceived, has provoked “a relative ‘ungluing’ of Canada’s long apparent dependence on the US, through the new gravitational pulls towards China… and towards Europe”.[70] However, this argument fails to distinguish between trade and investment. It also fails to distinguish between qualitative and quantitative imbalances. This liberal interpretation of trade, like the dependency model, does not account for the competing interests at play in CETA as well as the disproportionate allocation of costs and benefits that will be its outcome.

Conclusion

The Canada-EU Comprehensive Economic and Trade Agreement is a significant new FTA that negotiators hope to sign by mid-2013. CETA would expand the already substantial degree of economic integration between the two economies through a raft of economic and non-economic provisions, ranging from tariff reduction to investor-state arbitration to intellectual property protection. Proponents believe the deal will boost GDP growth and promote productive integration. Critics, however, argue that CETA is an assault on labour, the environment, national sovereignty, and other social concerns without a worthwhile economic impact.

This paper has analyzed CETA using the two dominant theoretical approaches in the critical Canadian political economy literature. The first, Canadian dependency theory, suggests that Canada is dependent on core capitalist economies, particularly the US, qualitatively in terms of trade and quantitatively in terms of investment. From this perspective, CETA would entrench Canada’s dependence on resource exports and manufactured imports. However, the approach breaks down in the context of FDI, where Canada is disproportionately strong and even stands to reduce dependency through the deal. The second approach, rejecting the first, suggests instead

[70] Paul Kellogg, "NAFTA unplugged? Canada's three economies and free trade with the EU," in *Europe, Canada and the Comprehensive Economic and Trade Agreement*, ed. Kurt Hübner (New York: Routledge, 2011), 124.

that competing class interests are at work in Canada, which better explains Canada's motives for pursuing CETA. The capitalist class, which stands to gain through increased investment opportunities, is pushing hard for the deal, while the working class, whose jobs and social well-being are threatened, has been largely ignored. The Canadian state, consistent with Marxist theory, is working to advance the interests of capital above broader social interests.

This analysis lends credence to the class-based approach in the Canadian political economy literature. Both the critical dependency and mainstream liberal approaches to free trade mistakenly treat CETA as either uniformly good or bad for Canada. This paper has argued instead that CETA would provide minimal economic benefits, limited mostly to investment opportunities for the capitalist class, while causing potentially severe non-economic consequences. While the benefits flow overwhelmingly to capital, the costs will be borne disproportionately by labour, the environment, and other social interests. As bilateral and multi-lateral trade deals play an increasingly prominent role in the global political economy, it is important to understand their impact not at the national level, but rather at the level of class.

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