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Free trade with Europe will not destroy 150,000 jobs*

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In a study recently published by the Canadian Centre for Policy Alternatives (http://www.policyalternatives.ca/publications/reports/out-equilibrium), economist Jim Stanford concludes that the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union (EU) should cost the Canadian economy a minimum of 28,043 jobs and a maximum of 152,409 jobs.

If his analysis had included jobs in the services sector, the numbers would be even higher. So why are our federal and provincial governments continuing to negotiate CETA with the Europeans? Are they out of their minds?

Not at all. Their decision to pursue negotiations with the Europeans on what is in effect an enhanced free trade agreement – since in addition to tariffs it touches on issues such as labour mobility, R&D cooperation, investment facilitation and harmonized regulations, which all help to promote trade – is based on a government-sponsored economic study that estimates a $12.1 billion increase in Canadian gross domestic product (GDP).

In his own report, Mr. Stanford dismisses the Canada-EU joint economic study and provides his own alternative estimates of the impact of a potential free trade agreement with the EU. Interestingly, he arrives at the same general conclusion with respect to trade flows between Canada and the EU: a free trade agreement should increase both exports to and imports from Europe, with imports continuing to be greater than exports.

Where Mr. Stanford parts with the joint study is in his interpretation of the relationship between the expected trade flows and jobs. Simply put, according to him, Canada's increased trade deficit with the EU will lead to even more job losses. Hence, CETA is a bad idea.

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For Mr. Stanford the arithmetic is very simple: exports create jobs while imports destroy them. For instance, he calculates that in 2009 the trade deficit in goods between Canada and the EU "destroyed" 51,551 jobs in Canada. Whether so many jobs are lost every year as a result of our trade with Europe, Mr. Stanford does not say.

But if the Conservatives want to win the next election, they should seriously consider banning all trade with the EU. In fact, they should ban all trade with countries with whom we have trade deficits. Fortunately, our oil and gas still allow us to export more to the US than we import from them (we have deficits in manufacturing and services); otherwise, we would not have many countries to trade with if we followed Mr. Stanford's logic. Doesn't it seem ironic that potentially wiping out 40 percent of Canada's economy could actually save, if not create, jobs?

In his analysis, Mr. Stanford completely dismisses the nature of production and trade today. Production processes are now regional, if not global, in nature. This means that firms import raw materials and components from certain countries in order to create intermediate goods, which in turn are exported to other countries so as to be assembled into final goods, which are themselves exported all over the world.

This is exactly how China has been fuelling its economic growth, i.e. by inserting itself into the so-called global value chains of multinational firms. For example, when a computer is imported from China, only a small fraction of its value is actually created in China, usually as a result of the (cheap) labour-intensive assembly of high-value components (motherboard, microchips, etc.), which are themselves imported from places such as Japan, Taiwan, Korea, Europe or the United States. It is for this reason that China has a trade surplus with Canada, Europe and the US while it runs a trade deficit with the rest of Asia.

So trade deficits do not necessarily lead to job losses; they can in fact contribute to creating jobs. This is why one needs to look at an economy's entire structure when assessing the impact of economic and trade agreements. For this reason, Mr. Stanford's analysis should simply be dismissed by those who are serious about discussing the pros and cons of CETA between Canada and the EU.