A Call *for* Integration

By Simon Lester

Canada offers a compelling model.

Economic integration can be an important source of economic growth through increased trade and specialization. As national economies are integrated, greater efficiency is achieved, and growth and development are the result.

For most of the history of trade negotiations and trade agreements, the focus of integration efforts has been on putting constraints on tariffs, quotas, and protectionist laws and regulations. Great progress has been made over the years, as tariffs have gone down from over 40 percent on average to less than 4 percent, and the GATT/WTO dispute settlement system has overseen many successful challenges to discriminatory taxes and regulatory measures. The problem of protectionism has not been completely solved, but the existing system of disciplines keeps it in check. This has contributed to a long era of growing economies and prosperity.

Anti-protectionism can be thought of as the first generation of economic integration. However, there are limits to how much integration can be accomplished in this way. Markets can remain segmented for a variety of other reasons. Thus, deeper integration must go beyond the simple removal of protectionist measures. In some places, such as Western Europe, a customs union, a common market, and an economic union have been achieved, in progression; however, this is only a realistic possibility among very close partners.

Recently, some governments have embarked on the next generation of economic integration (without attempting deep integration),

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one that is much more challenging: How to address the various non-protectionist domestic measures that interfere with trade? As the regulatory state has grown, the incidence of such measures has increased significantly. Health and safety regulations, environmental protection measures, and professional licensing requirements, among others, all impede the ability of individuals and companies to trade freely across borders. To take some real world examples, California might require that eggs sold in its market come from hens which are housed in large-sized cages. Because this is not required and is not the norm in most other states, producers from outside California will find it difficult to access that market. Or, on a smaller scale, a crane operator with a certificate to work in Quebec may be denied the ability to do so in Ontario.

These are not necessarily measures with a protectionist purpose, but they do have an impact on trade. What is needed is a process for coordinating regulations, and for recognizing that others' regulatory approaches may be equivalent to one's own, in a way that allows trade to flow as freely as possible

The problem of diverging and conflicting regulations is a delicate one, because it affects a government's ability to make general social and economic policy. Unlike an anti-protectionism rule, which only dictates that regulations not be protectionist, more general international legal obligations governing domestic regulation can put serious constraints on all aspects of domestic policymaking. For instance, a rule that says domestic regulations must be "proportional to their objectives" or be the "least trade restrictive available" has a major impact on the way governments can achieve their policy goals. As a result, this next generation of economic integration must be pursued carefully and with sensitivity to concerns over regulatory autonomy.

Convincing regulators to work with their foreign counterparts has not been easy.

One place where such efforts have been undertaken is in the Transatlantic Trade and Investment Partnership (TTIP). There, so-called "regulatory trade barriers" have taken center stage. Estimates in the hundreds of billions of dollars have been offered as potential gains from addressing the various regulations that impede U.S.-EU trade. However, progress has been slow in the talks so far. Convincing regulators to work with their foreign counterparts has not been easy, and the United States and the European Union may not see eye to eye. For the Europeans, regulatory cooperation is the key, whereas for the Americans, regulatory process reform has been more important. The outcome of these talks is thus uncertain.

To a more limited extent, these issues have also been addressed in the Canada-EU trade talks on a Comprehensive Economic and Trade Agreement, which are further along than the TTIP, but have not focused as heavily on these issues. If the CETA is finalized and implemented, this will provide a good source of experimentation with these issues.

But international trade talks are not the only forum for discussing this. Integration is also an issue within countries. International relations are usually the focus of integration, but the same principles apply at the intra-state level, and we can learn from the experience there. For guidance on how to move forward on these issues at the international level, it is worth looking at some recent efforts to improve internal trade flows in Canada. We often assume that free trade already exists within nations, but in some federal systems, significant barriers remain. The European Union has spent many decades trying to bring down barriers, with great success, but they have gone so far that is not easy for beginners to follow their model. For its part, the United States relies heavily on the Constitution, and in particular the Dormant Commerce Clause, to promote integration. This, too, is a difficult model to use, as constitutional structures are not easy to modify once in place With little notice, however, Canada has been very innovative in undertaking several new initiatives in recent years, trying to push forward incrementally in this area without a radical constitutional makeover.

Back in 1995, Canada established the Agreement on Internal Trade, which sets out rules governing barriers to the free movement of persons, goods, services, and investment within almost all of Canada. While the Agreement has been successful to a certain extent, there have been recent attempts to push the boundaries even further. Business groups want more effective tools to ensure that economic integration is given effect, through expanding and enhancing the agreement. Canada's Minister of Industry has pushed this initiative on a nationwide tour.

And in Western Canada, several provinces have developed their own regional economic integration framework. First, British Columbia and Alberta signed the Trade, Investment and Labor Mobility Agreement. This has evolved into the New West Trade Partnership Agreement, and includes Saskatchewan as well. Under this agreement, these provinces "commit to full mutual recognition or reconciliation of their rules affecting trade, investment, or labor mobility so as to remove barriers to the free movement of goods, services, investment, and people within and between the three provinces."

In a sense, the idea behind these agreements is to move towards a "single market": If a person or company can offer services in one province, they should be able to offer them in others as well. Nations should not be segmented into many separate markets; rather, there should be one national market.

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These attempts at more advanced forms of economic integration are not necessarily possible at the global level. Integration within a country, or in a region, will always be able to go further than global integration. We are more likely to share values with our neighbors, due to proximity, frequent interaction, common history, and similar cultures. Loosely speaking, we trust our neighbors more that we trust those on the other side of the world. Thus, a single world market, where every government recognizes every other government's regulation as equivalent, is unlikely. But progress can be achieved at the local, national, and regional levels, and can serve as a model to be used in different places around the world. Many nations have similar problems with their internal trade. And many regions could benefit from more integrated markets. For example, if British Columbia and Alberta can trust each other's regulations, why can't British Columbia and Washington state do the same? Clearly, the issue becomes more complicated when more than one nation is involved, but at least in theory, the same benefits are available through this sort of integration regardless of the nature of the governments—national or local—who are participating.

It is understandable that these issues are sensitive. Governments make promises, at least implicitly, that the products and services offered for sale in their territory are safe and reliable. They want their citizens to be able to rely on these promises. But when they exclude similar products and services offered by their neighbors, they are saying, in effect, that they do not trust the neighbors' standards. In some cases, that may be justifiable. But within similar groupings of governments—Canadian provinces, for example, or nations with similar development levels and governing structures—cross-border trade should be as free as possible. Governments should try to make it easy to sell products across borders, and to allow the provision of services from those qualified elsewhere. Canadian efforts to make this a reality could serve as a model for others around the world to follow.

There is still a good deal of economic growth that can be achieved through increased integration. Much of the low-hanging fruit of protectionism has been picked. It is now time to take on the more difficult task of bringing the markets of different jurisdictions—local, national, and regional—even closer together, where possible. ◆