

Barfield, Claude

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The European Commission's Communication on External Policy: A US Perspective

Claude Barfield

American Enterprise Institute

This essay will present the views of a US observer on the politics and substance of the European Commission's proposed new policies toward bilateral and regional trade agreements. It will contrast both the rationale advanced by the Commission and the underlying politics surrounding FTAs with the situations in the United States, particularly the record of the Bush administration "Competitive Liberalisation" policy. It will also describe additional political and security considerations that form the basis for US regional trade policy. Finally, it will advance tentative predictions for the FTA policy in the future.

Keywords: European Commission, FTA, US regional trade policy
JEL-Codes: F14, F15, F42

From the perspective of a US observer, there is both irony and a sense of *déjà vu* when it comes to assessing the publication of the European Commission's new "Communication: Global Europe: Competing in the World." Irony, because the decision by the commission to mount a new initiative, centred around Free Trade Agreements (FTAs) with Asia and in large part in response to the BUSH administration's "Competitive Liberalisation" agenda, comes at a time when that "Competitive Liberalisation" policy is almost certainly to be thwarted by a new Democratic Congress that assumes power in January 2007. *Déjà vu* because significant aspects of the rationales advanced for the new EU initiative track the rationales and circumstances that accompanied the BUSH administration's original explanation in 2001 for the increased priority given to bilateral and regional FTAs. There are also, one should add, significant differences. Let me take the irony and the partial *déjà vu* in order.

1 US Politics and FTA Policy

By narrow margins, the Democratic Party won control of both houses of Congress in November, 2006; thus, given that under the US constitution, power over trade policy is granted in the first instance to the legislative branch, final authority over trade matters will rest with Democrats. That bodes ill for the priority given to FTAs by the BUSH administration's "Competitive Liberalisation" policy. First, Democrats, particularly in the US

House, for a decade have established a record of opposition to FTAs: with only a bit of oversimplification, it can be said that in general two-thirds of House Democrats have opposed new trade agreements since the mid-1990s (while this ratio is reversed with the Republicans). Though to some degree this opposition merely reflected raw politics (the strong influence US labour exerts on House Democrats), it also stemmed from the conviction that in the future US trade policy should include elements of a new social compact and advance global environmental goals. Thus, the Democrats have pressed for ever tighter labour and environmental rules to be included within the text of new FTAs. They will certainly write such stringent rules into any new grant of authority they give to the executive (the current legislation granting such authority – so-called Trade Promotion Authority – expires in July 2007); and they have announced that even with FTAs already negotiated or under negotiation (viz., Peru, Colombia, Korea), more stringent labour and environmental obligations must be inserted.

While it is impossible at this writing to predict the outcome of the political manoeuvring regarding trade policy between the lame-duck BUSH administration and the new Democratic Congress, the most likely scenario will be a halt to, or at least a drastic curtailment of, new trade initiatives until a new president and new Congress are elected in 2008. Underscoring this negative assessment, the new Senate majority leader, SEN. HARRY REID (D.-Utah) has stated publicly that there is no chance for TPA renewal (REID at the same time proudly noted that he had voted against all FTAs in the 1990s, including NAFTA). In addition, virtually every new Democratic House and Senate member campaigned on an anti-global, anti-trade platform. On the other hand, the incoming chairmen of the trade committees in the two houses of Congress, REP. CHARLES RANGEL (D.-New York) and SEN. MAX BAUCUS (D.-Mont) thus far have avoided such emphatic negative predictions. Because of the strong anti-trade stances of their fellow Democrats, however, should they end up supporting new Trade Promotion Authority, they will demand dramatic changes in negotiating mandates to the executive. Finally, looming behind all of the policy differences is the 2008 presidential election, where manoeuvring between the parties – and between Democratic candidates vying for labour and environmental votes – has already begun.

The bottom line is that new FTA initiatives in the new Congress are probably non-starters, and FTAs already negotiated or in process of negotiation will be handled on a case-by-case basis, with the Democrats exacting a high price for their assent to any single FTA. The only light for the Republicans

(and in this case for trade liberalisers everywhere) is that on the slim possibility that the United States and other WTO members can negotiate a meaningful Doha Round agreement (and not so-called Doha-light), there is some chance that the more internationalist wing of the Democratic party (led by ROBERT RUBIN and BILL CLINTON) will successfully persuade fellow Democrats that the result is in the US national interest – and that the Democrats will not want to go into the 2008 election tarred with a protectionist and isolationist reputation.

2 US and EU FTA Policy: Similarities and Differences

Turning now to the rationales advanced for higher FTA priority in trade policy, advanced first by the BUSH administration in 2001 and now by the Commission, both asserted strongly that the new initiatives did not change the top priority given to the multilateral trading system and the successful conclusion of the Doha Round. Cynics and critics will certainly demur; but at least to date – while there are big differences in the negotiating stances of two partners – it cannot be said that either the United States or the EU has neglected WTO negotiations or has not been fully prepared and vigorous in pursuing national interests.

When it comes to the rationale and underlying motives for the FTA initiatives, as noted above, there are both striking similarities and notable differences. First, the circumstances surrounding the announcement of the new policy initiative are somewhat different with the two regimes. The Commission clearly places the “external” policy within the context of Europe’s increasing concern about global competitiveness. “The EU is losing ground in the highest technology areas,” warns the Communication. The Communication also refers directly back to the Lisbon strategy, though for obvious reasons it does not acknowledge that most observers consider its internal goals largely unfilled. While the Bush administration faced a brief economic downturn in 2001 with the end of the dot.com boom, concerns about US competitiveness were less urgent. Rather, US Trade Representative (USTR) ROBERT ZOELLICK unashamedly advanced a purely mercantilist theme: during the 1990s, when the US president lacked trade negotiating authority, other nations had “gotten way ahead” of the United States by concluding numerous FTAs that discriminated against US companies and workers – thus, the urgent need to “level the playing field.”

2.1 Economic factors

Beyond these contrasting background conditions, both the EU and the United States stress economic factors when determining the choice of FTA partners. For the EU, the key economic criteria are the size and growth potential of the potential FTA partner, as well as the level of protection against EU exports. In addition, account will be taken of partners' negotiations with EU competitors, the impact of these negotiations on EU markets, as well as the potential for the erosion of preferential access to EU markets already enjoyed by current EU trade partners, particularly developing countries. The FTA record of the United States, including rhetoric and performance, also places a high priority on economic factors, though accompanying economic criteria are stated in somewhat different terms. Thus, the United States did not at the outset give priority to large economies (partly this decision was governed by the foreign policy considerations discussed below). Indeed, until the decision to open negotiations with Korea, new US FTA partners together amounted to less than 10 percent of total US trade. Regarding economic criteria, the United States merely stated that export opportunities as well as levelling the playing field to offset existing preferential agreements would be among the important criteria in FTA selection. Further, however, the United States did demand that FTA partners be prepared to negotiate "state of the art" agreements, which in a number of cases meant that a country would have to agree to substantial internal economic and regulatory reform and go beyond existing WTO obligations (so-called WTO-plus liberalisation).

In one respect, the Commission's "Communication" is much more direct and concrete than statements and explanations thus far offered by US trade officials. Among the specific priorities listed by the document are three policy areas that the EU unsuccessfully attempted to place on the Doha Round agenda: competition policy, investment and public procurement. Thus, one part of the larger EU strategy – though for obvious reasons not stated in the "Communication" – is to insert these negotiating issues into FTAs, with the hope and expectation that later they can be introduced into multilateral negotiations. This is not to say that the United States, in less explicit and open fashion, has not adopted the same tactic for issue areas that would attract great opposition at the multilateral level. For instance, all US "state of the art" FTAs must – according to US dictate – include TRIPS provisions that go well beyond WTO obligations, as well as restrictions in capital controls that would be anathema to developing country WTO coalitions.

On the sensitive issues surrounding social and environmental obligations in future FTAs, the Commission couches its intentions in cautious, diplomatic assurances, stating that it will “work to strengthen sustainable development through our bilateral relations,” but adding that this could include “incorporating new co-operative provisions in areas relating to labour standards and environmental protection.” The emphasis on cooperation contrasts greatly with the US Democrats’ demand that future FTAs include legally enforceable bludgeons in these areas.

2.2 US political and diplomatic factors

In addition to economic factors, however, the United States added domestic political considerations and diplomatic conditions beyond those stipulated by the Commission’s new document – or at least, gave much greater priority to these conditions than did European trade officials. Thus, US trade officials were frank to state that the views of members of Congress and those of key private interest groups would be an important factor in determining the eligibility of a trading partner for a bilateral FTA. These upfront considerations reflected the reality that Congress, not the executive, holds the whip hand in trade policy – and that private interest groups and important civil society organisations exert great influence on the congressional politics. Though the Commission must factor in internal EU politics as a part of its FTA decision making process, it does not face the close day-to-day scrutiny the US executive is subjected to; and the EU political culture allows it some distance and independence from private interest groups.

Finally, the clearest difference between BUSH administration and EU-FTA policy concerns the important place the BUSH administration gives to foreign and security policy considerations in the overall rationale for policy and in the specific choice of FTA partners. In the 2002 white paper, “The National Security Strategy of the United States of America,” trade became an important strategic element in US foreign policy. The document stated: “The concept of ‘free trade’ arose as a moral principle before it became a pillar of economics ... This is real freedom, the freedom of a person – or a nation – to make a living.” Further, though tempered in diplomatic language, US trade officials made it clear that support for US diplomatic and security goals would constitute an important factor in the choice of nations as candidates for preferential trade arrangements. As USTR ZOELLICK stated, the administration did not consider a FTA “something one has a right to; it’s a privilege.” The administration, he stated, would seek “cooperation – or

better – on foreign policy and security.” The BUSH administration followed up through with this policy guidance: Australia was moved to the front of the line as a FTA partner because of support in Iraq, and the administration proceeded to negotiate a series of FTAs with Middle Eastern countries, with small trade connections but with importance for US foreign policy interests – Bahrain, Morocco, Jordan, and the United Arab Emirates.¹

3 Asia

Three (or twelve) of six of the priority candidates identified in the “Communication” are in Asia: Korea, India, and the 10-nation ASEAN community. These choices are both interesting and puzzling. Korea clearly meets all of the criteria set out by the Commission. It has a large market, retains at least some highly protected sectors and has signaled in its approach to the United States that it is ready to negotiate a comprehensive FTA (though whether this will turn out to be the case is still undetermined, as the US-Korea negotiations have been difficult and thus far inconclusive). In addition, one must assume that the EU is counting on less pressure over agriculture, as both Korea and the EU have well-protected agricultural sectors.

With ASEAN, there are a number of potential hurdles. At a minimum, the EU will be forced to separate out negotiations with the four less-developed ASEAN nations – Cambodia, Laos, Vietnam and Burma – from other ASEAN members. And even among the ASEAN-6, there are likely to be great differences in sectoral adjustment costs and the political will to undertake substantial trade liberalisation. Thus, once the EU gets into the process of ASEAN trade negotiations, it may well find that – as the United States and Japan have found – the most fruitful course will be to launch separate bilateral negotiations with individual ASEAN nations, leading with Singapore, Thailand and Malaysia.

Similarly, India must be counted as a long-term FTA negotiation. In both industry and agriculture, India has deeply protected markets; and while much has been written about its success in global service outsourcing, there is no evidence that political leaders in India are ready to open up key service sectors, such as banking, insurance, securities and telecommunications. In this

1 It should be noted, however, that though the Commission’s “Communication” does not mention foreign policy factors, the decision to give priority among the top six FTA candidates to Russia and the Gulf Cooperation Council clearly is based upon larger political considerations and could not be defended on the alleged grounds of “market potential” and “high levels of protection” alone.

case, and with ASEAN, it will be interesting to see if the EU can come up with some kind of interim arrangement – akin to the US Trade and Investment Facilitation Agreement (TIFA) – that would provide a waystation and training ground for later full-scale FTA negotiations.

Finally, there is the issue of the major trading nations omitted from the list: Japan and China. The decision to omit Japan is particularly puzzling. By the most important criteria established by the Commission, one could make the case that Japan should be at the top of the list. It has a far larger market than any of the other candidates, and – as with Korea – it still maintains high protection in some sectors. Further, as with Korea, Japan would give willing assent to only modest reform in the agricultural sector.

“China,” the Commission admits, “is the single greatest test of Europe’s capacity to make globalization an opportunity for jobs and growth.” And it goes on to acknowledge that: “China ... meets many of (the economic) criteria” for FTA candidacy. But the Commission then concludes that China “requires special attention because of the opportunities and risks it presents.” The vague reference to “risks” covers a multitude of issues, and one can sympathize with the Commission’s attempt to distinguish China from the other potential FTA partners. But it is ironic that China, given the stringent obligations it accepted for WTO membership, by many measures has the most open economy in Asia – and has itself entered into FTA negotiations with more than 20 countries, both within the region and around the trading world. Though political criteria (including human rights issues) are not spelled out in the new Commission rationale, clearly in this case they are the decisive factor.

One other point should be noted regarding future EU options in Asia. Depending on events over the next several years, it may be that additional regional options will come into play. While they may not reach fruition, there are announced plans for the ASEAN plus 3 nations to begin negotiations on a regional-wide FTA by 2010 (others, particularly China, have suggested the East Asian Summit process to become the vehicle for such negotiations). At that point, if the EU persists with policies announced in the new “Communication,” it might consider leapfrogging individual bilateral negotiations and offer to negotiate collectively with the nations included in such a regional agreement.

4 Conclusions

For both the EU and the United States, the future of new bilateral and regional trade initiatives remains uncertain, dependent on a variety of exogenous factors, ranging from the future of the WTO Doha Round, domestic politics, evolving trade and investment patterns, and political and security considerations. Regarding Asia, the central focus of both US and European future regional trade policy, this much can be said. Both the US and the EU have thus far avoided integrating the elephant in the room, China, fully into their evolving regional trade strategies. The difficulties and strains from this failing are likely to increase in the near future, as Chinese economic growth and accompanying political influence impel it toward at least shared dominant leadership with Japan. For both the US and the EU, the disjuncture between ever closer trade and investment ties with the Chinese economy and continuing uncertainty and apprehension about the PRC's hegemonic goals will become increasingly acute.

As the US observer in this analytic exercise regarding "Global Europe" and FTAs, I will leave it to others to predict the future course of EU policy in response to the Asian and Chinese challenges. For the United States, I would argue that even if there is a hiatus in US bilateral and regional trade initiatives until the end of the BUSH administration, economic and security imperatives will force the next US president, whether a Democrat or a Republican, to revive "Competitive Liberalisation" in some form as a top priority for US trade policy. And the prediction here is that ultimately – even with a Democratic president and Congress – the "China card" and the fear of an emerging Chinese hegemony over the vital economies of East and South Asia will trump populist and anti-global hysteria and push the United States into a competitive leadership role in the region.