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Europe (Re)Joins the FTA Bandwagon

By Claude Barfield

For a U.S. observer, there is both irony and a sense of déjà vu in assessing the European Commission's new report, Global Europe: Competing in the World. *It is ironic because the decision by the commission to mount a new initiative centered around free trade agreements (FTAs)—itself a response to the Bush administration's "competitive liberalization" agenda—comes at a time when that policy is almost certain to be thwarted by the new Democratic Congress. There is a sense of déjà vu because significant aspects of the rationale advanced for the European Union's (EU) new initiative track with the explanations given for the Bush administration's 2001 decision to elevate bilateral and regional FTAs, although there are also significant differences.*

For more than a decade, Democrats, particularly in the U.S. House, have opposed FTAs. Since the mid-1990s, generally about two-thirds of House Democrats have voted against or announced opposition to new trade agreements. For most FTAs, this ratio was reversed with Republicans. Democratic opposition reflects raw politics to some degree—particularly the strong influence that labor exerts on House Democrats—but it also stems from the conviction that U.S. trade policy should include elements of a new social compact and also advance global environmental goals. Thus, the Democrats have pressed for ever-tighter labor and environmental rules in new FTAs. Now that the Democrats control both houses of Congress, they are more likely to prevail.

Congressional Democrats will certainly write stringent rules into any new grant of negotiating authority to the executive. The current legislation granting such authority—so-called trade promotion authority (TPA)—expires in July 2007. The Democrats have announced that additional labor and environmental restrictions will have to be inserted in FTAs already negotiated or under negotiation (such as those with Peru, Colombia, and South Korea).

While it is impossible at this writing to predict the outcome of the political maneuvering over 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, at least until a new president and a new Congress are elected in 2008. Senate majority leader Harry Reid (D-Nev.) has stated publicly that there is no chance for TPA renewal, proudly noting that he voted against every FTA in the 1990s, including the North American Free Trade Agreement (NAFTA). Virtually every freshman Democratic congressman and senator campaigned on an antiglobalization, antitrade platform. On the other hand, the incoming chairmen of the trade committees in the two houses of Congress, Representative Charles Rangel (D-N.Y.) and Senator Max Baucus (D-Mont.), have thus far avoided such emphatic denunciations of free trade—and on January 4, Baucus published an op-ed in the *Wall Street Journal* supporting renewal of TPA under certain conditions. Because of the strong antitrade stances of their fellow Democrats, however, should they support TPA renewal, they will demand dramatic changes in the negotiating authority of the executive. Looming behind current policy differences

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is the 2008 presidential election. Maneuvering between parties—and between Democratic candidates vying for labor and environmentalist votes—has already begun.

The bottom line is that new FTA initiatives in the 110th Congress are probably non-starters. FTAs already negotiated or in the 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 agreement. Trade liberalizers' only hope stems from the slim possibility that the United States and other World Trade Organization (WTO) members can negotiate a meaningful Doha round agreement, not a "Doha Lite" one.[1] Should Doha negotiations succeed, it is possible that the internationalist wing of the Democratic Party (led by Bill Clinton and former treasury secretary Robert Rubin) will be able to persuade fellow Democrats that a Doha round agreement is in the nation's best interest. They will certainly remind their fellow Democrats that their party should not go into the 2008 election tarred with a protectionist and isolationist reputation.

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EU and U.S. FTA Policy: Similarities and Differences

Both the Bush administration and the European Commission insist that the new initiatives to make FTAs a higher priority in trade policy do not change the top priority given to the multilateral trading system and the successful conclusion of the Doha round. Cynics and critics will demur, but to date, it cannot be said that either the United States or the EU has neglected WTO negotiations or has been unprepared in pursuing national interests.

Beyond this general commitment to the multilateral trading system, the rationales, underlying motives for, and circumstances of the EU and U.S. FTA initiatives differ. The commission clearly places its new initiative in the context of Europe's increasing concern about global competitiveness. "The EU is losing ground in the highest technology areas," warns the *Global Europe* report.[2] When the Bush administration faced a brief economic downturn in 2001 with the end of the dot-com boom, concerns about U.S. competitiveness were less urgent. Rather, then–U.S. trade representative Robert B. Zoellick unabashedly advanced a mercantilist argument for new FTAs: during the 1990s, when the president lacked trade negotiating authority, other nations concluded numerous FTAs that discriminated against U.S. companies and workers. The United States, he said, had only itself to blame for "falling behind."[3] He stressed the urgent need to level the playing field.

Beyond these contrasting background conditions, both the EU and the United States stress economic factors in their choice of FTA partners. For the EU, the key economic criteria are the size and growth potential of the prospective FTA partner, as well as the level of protection against EU exports. The EU also takes note of potential partners' negotiations with EU competitors, the impact of these negotiations on EU markets, and the potential for the erosion of preferential access to EU markets already enjoyed by current EU trading partners (particularly developing countries).

The approach of the United States to FTAs in rhetoric and action also places a priority on economic factors, although the accompanying economic criteria are stated in somewhat different terms. Thus, the United States did not at the outset give priority to large economies. This decision was partly governed by foreign-policy considerations discussed below. Indeed, until the opening of negotiations with South Korea, new U.S. FTA partners together amounted to less than 10 percent of total U.S. trade. The United States has merely stated that export opportunities and leveling the playing field to offset existing preferential agreements would be among the most important criteria for FTAs. The United States, however, has demanded that FTA partners be prepared to negotiate "state-of-the-art" agreements, which in a number of cases has meant that a country would have to agree to substantial internal economic and regulatory reforms and go beyond existing WTO obligations ("WTO plus liberalization").

In one respect, the European Commission's report is more direct and concrete than statements and explanations thus far offered by U.S. trade officials. Among the specific priorities listed in the document are three policy areas that the EU unsuccessfully attempted to place on the Doha round agenda: competition policy, investment, and public procurement. One of the EU's larger goals—

though for obvious reasons not stated in the report—is to insert these negotiating issues into FTAs, with the hope and expectation that they can be introduced later into multilateral negotiations. The United States has less openly adopted the same tactic for issues that would attract opposition at the multilateral level. For instance, all U.S. state-of-the-art FTAs must—according to U.S. fiat—include trade-related intellectual property rights provisions that go well beyond WTO obligations, as well as restrictions on capital controls that would be anathema to developing-country WTO coalitions.

On the sensitive issues surrounding social, labor, 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."[4] This emphasis on co-operation contrasts with the U.S. Democrats' demand that future FTAs include legally enforceable bludgeons in these areas.

In addition to economic factors, however, the United States added domestic political considerations and diplomatic conditions beyond those stipulated by the European Commission's new document. Thus, U.S. trade officials were frank in stating that the views of members of Congress and key special-interest groups would be important factors 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 special-interest groups and important civil society organizations exert great influence on Congressional politics. Although the commission must consider internal EU politics as a part of its FTA decision-making process, it does not face the close day-to-day scrutiny to which the U.S. executive branch is subjected. The EU's political culture allows it some distance and independence from special-interest groups.

The clearest difference between Bush administration and EU FTA policy concerns the priority that the Bush administration assigns to foreign- and security-policy considerations in its specific choice of FTA partners. The 2002 *National Security Strategy of the United States of America* described trade as an important strategic element in U.S. foreign policy: "The concept of 'free trade' arose as a moral principle before it became a pillar of economics. . . . This is real freedom, the freedom for a person—or a nation—to make a living."[5] Although their rhetoric was tempered by diplomatic language, U.S. trade officials made it clear that support for U.S. diplomatic and security goals would be an important factor in choosing candidates for preferential trade arrangements. As Zoellick stated, the administration did not consider an FTA "something one has a right to; it's a privilege." The administration, he asserted, would seek "cooperation—or better—on foreign policy and security."[6] The Bush administration followed through: Australia was moved to the front of the line as an FTA partner because of its support in the Iraq war, and the administration proceeded to negotiate a series of FTAs with Middle Eastern countries of minor trade importance but of substantial consequence for U.S. foreign-policy interests, including Bahrain, Morocco, Jordan, and the United Arab Emirates.

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It should be noted, however, that though the European Commission's report does not mention foreign-policy factors, the decision to give priority among the top six FTA candidates to Russia and the Gulf Cooperation Council is clearly based on broader political considerations and cannot be defended on the alleged grounds of market potential and a high level of protection alone.

Establishing FTAs in Asia

Three of the six priority candidates identified in the European Commission's report are in Asia: South Korea, India, and the ten nations that compose the Association of Southeast Asian Nations (ASEAN). These choices are both interesting and puzzling. South 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 be completed is undetermined, as the U.S.-Korean 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

South Korea and the EU have well-protected agricultural sectors.

With the ASEAN countries there are a number of potential hurdles. At a minimum, the EU would be forced to separate negotiations with the four less-developed ASEAN nations—Cambodia, Laos, Vietnam, and Burma—from the other members. And even among the six developed ASEAN nations, there are likely to be great differences in sectoral adjustment costs and the amount of political will necessary to undertake substantial trade liberalization. Thus, once the EU begins trade negotiations with ASEAN countries, it may well find—as the United States and Japan have—that the best course will be to launch separate bilateral negotiations with individual ASEAN nations, starting with Singapore, Thailand, and Malaysia.

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Similarly, India must be counted as a long-term FTA candidate. In both industry and agriculture, India has deeply protected markets. While much has been written about its success in global service outsourcing, there is no evidence that India's political leaders are ready to open up key service sectors such as banking, insurance, securities, and telecommunications. In this case, as with ASEAN, it will be interesting to see if the EU can come up with an interim arrangement—akin to the U.S. Trade and Investment Facilitation Agreement—that would provide a way station for future 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, Japan should arguably be at the top of the list. It has a far larger market than any of the other candidates and, like Korea, maintains high protection in some sectors. Furthermore, like Korea, Japan would give willing assent to only modest reform in the agricultural sector.

"China is the single greatest test of Europe's capacity to make globalisation an opportunity for jobs and growth," the commission admits.[7] Although it declares that China meets many of the economic criteria for FTA candidacy, the commission concludes that China "requires special attention because of the opportunities and risks it presents." The vague reference to "risks" covers many issues, and one can sympathize with the commission's attempt to distinguish China from other potential FTA partners. But it is ironic that China, given the stringent obligations it accepted for WTO membership, and which by many measures has the most open economy in Asia, has itself entered into FTA negotiations with more than twenty countries both within Asia and around the world. Although political criteria—including human rights issues—are not spelled out in the new report, in this case they are clearly a decisive factor.

Depending on events over the next several years, additional regional options may emerge. There are plans for the ASEAN+3 nations to begin negotiations on a region-wide FTA by 2010. (Other nations, particularly China, have suggested that the East Asian Summit process become the vehicle for such negotiations.) At that point, if the EU persists with policies announced in the report, it might consider leapfrogging individual bilateral negotiations and offering to negotiate collectively with the nations included in such a regional agreement.

For both the EU and the United States, the future of new bilateral and regional trade initiatives remains uncertain, dependent on a variety of external factors, including the future of the Doha round, domestic politics, evolving trade and investment patterns, and political and security considerations. Regarding Asia, the central focus of both U.S. and European future regional trade policies, this much can be said: both the United States and the EU have thus far avoided fully integrating China into their evolving regional trade strategies. The strains from this failing are likely to increase in the near future, as Chinese economic growth and accompanying political influence continue to move it toward (at least) shared dominant leadership in the region with Japan. For both the United States and the EU, the disjuncture between ever-closer trade and investment ties with China and continuing uncertainty and apprehension about that country's hegemonic foreign-policy goals will become increasingly acute.

I leave it to others to predict the future course of EU policy in response to the Asian challenges. For the United States, even if there is a hiatus in bilateral and regional trade initiatives until the end of the Bush administration, economic and security imperatives will force the next U.S. president, whether a Democrat or a Republican, to revive "competitive liberalization" in some form as a top priority for U.S. trade policy. Even with a Democratic president and Democratic Congress, the "China card" and the fear of emerging Chinese hegemony over the vital economies of East and South Asia will trump populist and antiglobalization hysteria and push the United States into a competitive leadership role in Asia.

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Notes

1. See Susan C. Schwab (conference remarks, AEI, Washington, DC, October 3, 2006), available through www.aei.org/event1401/.

2. European Commission, Directorate General for External Trade, *Global Europe: Competing in the World* (October 2006), 4, available through http://ec.europa.eu/trade/issues/sectoral/competitiveness/global_europe_en.htm (accessed January 9, 2007).

3. Robert B. Zoellick, testimony before the U.S. Senate Committee on Finance, 107th Cong., 1st sess., June 21, 2001, available at www.senate.gov/~finance/062101rztest.pdf#search=%22%22the%20United%20States%20adds%20to%20its%20ability%20to%20shape%20the%22%20zoellick%22 (accessed January 9, 2007).

4. European Commission, *Global Europe*, 12 (emphasis added).

5. George W. Bush, *The National Security Strategy of the United States of America* (Washington, DC: The White House, 2002), 17–20, available at www.whitehouse.gov/nsc/nss.pdf (accessed January 9, 2007).

6. Robert B. Zoellick (speech, International Institute for Economics, Washington, DC, May 8, 2003).

7. European Commission, *Global Europe*, 12–13.