

**EU TRADE POLICY**  
**AND GLOBALIZATION:**  
**FOLLOWING THE AMERICAN LEADER?**

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## **EU Trade Policy and Globalization: Following the American Leader?**

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In October 2006, the European Commission published “Global Europe Competing in the World”. With that document, developed by the “competitiveness group” of Commissioners, the Commission put forth a new trade strategy designed to respond to the changing dynamics and geography of international trade. The announcement acknowledged (if only tacitly) the lack of strategic focus and agenda-setting capacity which EU trade policy has exhibited outside the EU’s traditional sphere of influence.

The EU has been deciding not only (to use Meunier and Jacoby’s terms) “what is allowed in” and “what stays out” but also “what goes out to where.” It is in that latter category that the EU has been relatively unsuccessful, so much so that the Commission decided to propose a change of strategic direction. In other words, the management of globalization requires securing markets for EU exports and protecting the interests of EU investors abroad rather than simply focusing on imports into the EU market. While the EU has been aggressive in shaping markets within its European neighborhood (broadly defined) as well as in its traditional markets, it has not shown the same strength or leadership capability in shaping the terms of globalization or what Colin Hay more accurately refers to as “inter-regionalization.” (Hay:3)

Within the terms of the Meunier/Jacoby paper, the EU’s management strategy up to this point in the area of inter-regional trade has been unsuccessful in that it has been unable to “set the agenda” of trade liberalization. It has been a “follower” in a US-EU dynamic which has seen the US aggressively carry out “competitive liberalization” with the EU either responding or not even doing that. At its best, the EU has reacted to US initiatives rather than independently staking out its own territory. Its current proposed change of strategy, in fact, targets those areas of the world with which the US is already engaged but in which the EU has either been largely absent or relatively disengaged.

The European Union and the United States are inevitably each other’s referents. It is difficult for either to ignore the other over the medium-term.

The US-EU relationship includes a strong competitive component in third countries. Typically, the US and the EU have been developing countries' most important trading partners, and it is not surprising that it is there where they have competed. It is also not surprising the acknowledgement by Brussels that the EU's strategy has failed to match the gains won by the US through its commercial diplomacy in emerging markets has spurred the Commission to redefine the way forward.

The strength of US trade policy helps explain the weakness of the EU's. The US has defined the playing field and the very definition of success, primarily because it has moved aggressively to set the terms of inter-regionalization by negotiating far-reaching free trade agreements. When viewed within the parameters of the US-EU competition in key markets, the EU's strategy has either been defensive or non-existent. It has either tried to gain the same kinds of advantages obtained by the US rather than set the terms of negotiation in the first place or, alternatively, has ignored the possibilities of negotiating free trade agreements with certain countries altogether.

In brief, the European Union's attempts to "manage" globalization in external markets has had two faces. One has focused on the European continent and the former colonies of the EU's member states (and to a lesser extent the Southern and Eastern Mediterranean states). In this arena, the EU has been able to manage globalization according to its own tenets.

The second has had to confront initiatives carried out by the US to shape globalization in **its** own interest. This second dimension can be viewed as the global dimension of "management", involving competition, "catching up", and a symbiotic relationship with the trade strategy of the United States. The American strategy forced the EU to turn its attention to bilateral and inter-regional agreements in Latin America rather than rely exclusively on the multilateral agreements upon which the EU had relied outside of its traditional arenas of focus. Since the EU was the "laggard" in such trade negotiations, it was forced to address the agenda set by the US in order to ensure that its own interests were not damaged.

## **The EU in a Post-NAFTA World**

Before 1994, the US liberalized its trade under GATT rules and did not (with few exceptions) make special provisions for developing countries outside of the GATT framework. By contrast, the EU divided the developing world into those countries with which it had a special economic and institutional relationship and those which were dealt with only under GATT/WTO rules. The African, Caribbean, and Pacific (ACP) countries were given preferential access to the EU market on a non-reciprocal basis. From the EU's standpoint, this relationship constituted part of the EU's effort to aid development. France, the United Kingdom, and the Nordic countries viewed the EU-ACP relationship as the EU's key relationship with the developing world. The US, for its part, did not have a parallel relationship and criticized the EU's relationship with the ACP countries. The American and EU's relationship with the developing world was therefore asymmetric.

The basic structure of that asymmetry was reshaped when the US Congress, after a fierce battle, approved the North American Free Trade Agreement which went into force on January 1, 1994. NAFTA represented a key break in the US strategy of pursuing the liberalization of trade primarily through multilateral negotiations. Furthermore, the integration of the Canadian, American, and Mexican economies signaled the arrival of a regionalism which coupled both developed and developing economies into a "WTO plus" very expansive free trade agreement. The incorporation of the large Mexican market into the North American trade area, an incorporation which included intellectual property rights and investment protection, represented a milestone in the shaping of the international trading system. NAFTA, in brief, forced all exporting countries to eventually re-think their trade strategies. The EU was no exception.

In December 1994 President Clinton announced his intention to negotiate a hemispheric free trade area—eventually to be known as the Free Trade Area of the Americas—as well as, more immediately, a free trade area with Chile. Chile in fact indicated its desire to join NAFTA.

For the first time, the EU was confronted by the privileging of US corporations in an important EU market—Mexico—and by the prospect that

such privileges would be extended by all of Latin America, including the important Mercosur countries Brazil and Argentina, both of which were key EU trade partners. Secondly, EU exports to Mexico would be competing with US exports privileged by NAFTA. Thirdly, it was confronted by a form of regionalism in which economic relations were to be shaped by a “WTO plus” array of regulations in key areas such as intellectual property rights. The EU now faced an organizing western hemisphere which would be based on “WTO plus” rather than simply WTO rules.

The EU responded to NAFTA and the proposed FTAA in several ways. In May 1995 the EU began negotiating the EU-Mexico Global Agreement, the first transatlantic free trade agreement negotiated by the EU. And in February 1, 2003 most of the free trade agreement which the EU had negotiated with Chile came into force. In November 1999, it also began negotiating a free trade agreement with Mercosur, a regional customs union with Brazil, Argentina, Paraguay, and Uruguay as members, the formation of which has also been influenced by NAFTA.

However, the Clinton Administration was unable to pursue the free trade agreements it had proposed due to the lack of negotiating authority. The US was therefore unable to move forward with the Free Trade Area of the Americas or even with concluding a free trade agreement with Chile. This respite allowed the EU to “catch up” by finalizing an agreement with Mexico, negotiating a free trade agreement with Chile, and initiating negotiations with Mercosur, but it did not use the time to move aggressively in the rest of Latin America. The process of enlargement was clearly taking priority, and the EU was therefore not playing a leadership role in Latin America’s commercial diplomacy.

The election of George W. Bush as President coupled with the Republican control of the House and Senate, however, ended the respite for the EU and commenced a period in which the US moved very quickly to begin negotiations for a Free Trade Area of the Americas. Although that initiative was blocked by Mercosur, the US managed to negotiate a free trade agreement with Chile (approved by Congress in 2003) and one with Central America and the Dominican Republic (approved by Congress in 2005). The US signed an FTA with Peru in April 2006, with Colombia in November 2006, and concluded one with Panama in December 2006 that contains what are described by the US Trade Representative as “ground-breaking provisions on customs administration.”

These negotiations provided the substance in Latin America to a strategy known as “competitive liberalization.” Essentially, the US began negotiating bilateral agreements with those countries eager to gain access to the US market, thereby hoping to trigger a dynamic which would encourage other countries to seek bilateral agreements with the US as well as move toward a multilateral agreement.

The EU and the US have both failed in negotiating with Mercosur. In fact, the US began negotiating in the kind of piecemeal way outlined above because of Mercosur’s resistance to the US agenda during the FTAA negotiations. Mercosur refused to accept the US position that FTAA negotiations should only be conducted bilaterally—that is Mercosur could not act as a unitary negotiator. Furthermore, the US and Mercosur (read Brazil) could not agree on agricultural liberalization. The EU for its part has been negotiating with Mercosur since November 1999 with no end in sight. It has negotiated with Mercosur only as a regional grouping and resisted any attempts to move negotiations toward individual Mercosur members. However, it too has been unable to accept Brazil’s demands for agricultural liberalization. Thus, both the EU and US negotiations with Mercosur are stalled, with the result that the Free Trade Area of the Americas is considered dormant if not dead, and the EU is faced with the prospect of still more, perhaps fruitless, negotiations unless the Doha Round can come to an agreement on agricultural liberalization.

The US, however, even in this period of paralysis in US-Mercosur negotiations, is active. It has focused its attentions on Uruguay, for whom the US is the largest trading partner. It signed a Bilateral Investment Treaty in November 2005 which went into force in November 2006. In January 2007, Uruguay and the US signed a Trade and Investment Agreement (TIFA). Since Uruguay has been loudly complaining that both Brazil and Argentina ignore its needs, many suspect that the US is trying to undermine Mercosur’s cohesion by enticing Uruguay toward a free trade agreement which would be incompatible with Uruguay’s remaining in Mercosur. Whether such suspicions are accurate, they do reflect the energy and enthusiasm which the US has poured into negotiating free trade agreements with Latin American countries.

It is not surprising that the new strategy proposed by the Commission argues for negotiating with the Andean Community, Central America, and

Mercosur --as well as Asia where the EU has been entirely absent and the US very active. Although the Latin American market is less attractive than the Asian, it still represents an area in which the Commission feels the EU needs to be far more active.

### **The EU in a “WTO Plus” World**

In conclusion the EU has not succeeded in setting the agenda in a now “WTO plus” world. Whether because, as Colin Hay suggests, globalization has not proceeded as quickly as has “EU-ization” or whether because politics within the EU have curtailed the potential leadership of the EU in markets outside its traditional sphere of activity, the EU has not shown itself to be a leader in shaping interregional or bilateral agendas. It is perhaps not an accident that the Commission document arguing for a strategic change of direction focuses on competing “in the world”. Up until now, the EU has not emphasized “the world”, and for that reason, the US has been able to exercise disproportionate influence in both Latin America and Asia without the kind of competition from the EU that might be expected.

Discussions of the EU and globalization, therefore, do need to make the kinds of distinctions proposed by Hay. They also need to avoid the assumption that the EU which has directed the process of enlargement and the relationship with the ACP countries is the EU which we find “in the world.” The latter EU is in fact a much more timid, reactive, and hesitant actor, one which has not conceptualized a global role for itself except when negotiating at the WTO. Given the possibility that Congressional politics will once again stop the process of US-led trade liberalization, it remains to be seen whether the political will exists within the EU to refashion itself as an agenda-setter in the liberalization of inter-regional trade.

## **BIBLIOGRAPHY**

Bibliography will be forthcoming