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The Deceptive Allure of a Transatlantic Free Trade Agreement: A US Perspective

The idea of a Transatlantic Free Trade Agreement enjoys strong support in both the United States and Europe. Our author takes a critical view of such an agreement in the light both of his overall assessment of the implications of regional trading pacts for the larger multilateral trading system and of issues raised by the particular details of a US-EU agreement.

The drive for a transatlantic free trade area is fueled by two diverse sources: first, from Atlanticists across a wide political spectrum in both the United States and Europe, who see the movement to free commerce as the instrument of a revitalized alliance between the democratic nations of the North Atlantic; and second, from a subset of European free marketeers – sparked by Lady Margaret Thatcher – who see a free trade alliance with the freewheeling capitalism of the United States as an antidote to the twin European toxins of ever increasing internal social and economic regulation combined with external protection. While one can sympathize with the goals of each group (particularly with Lady Thatcher), this article will argue that a Transatlantic Free Trade Agreement (TAFTA) is not the best means of achieving the renewed concord desired by the former group nor the more specific classical liberal goals of conservatives. In response to the Atlanticists, this article will argue that giving top priority to regional trade agreements, as the Clinton administration has done, is a flawed strategy for advancing US national economic, political and security interests which are worldwide in their scope and reach and which will inevitably be subverted with regional tilts in favor of one or more geographic areas.

For free market conservatives, it should be pointed out that with center-left governments now dominant in Britain, France and Italy and with the real possibility that Europe's largest social market economy, Germany, will be headed by Social Democrats by the end of the year, an EU trade alliance with the United States (also headed by a center-left President who is striving mightily to replicate himself with Vice President Al Gore after the year 2000) might well become a powerful force to advance intrusive new international regulations in key areas of social, economic and environmental policy – a kind of Maastricht for the world. Thus, with regard to the proposed TAFTA and its potential effect on the international trading system, Lady Thatcher should recall and heed her famous Bruges declaration: to wit, that she had not "successfully rolled back the frontiers of the state in Britain, only to see them reimposed at the European level."

Regional Trade Patterns

Before analysing the implications of the proposed TAFTA, a review of the underlying facts and trends in world trade and investment patterns is necessary. In assessing the comparative positions of the three leading world trading regions – the United States, Europe and Asia – two paradoxical circumstances must be kept in mind regarding the United States. First, the US, alone among the major trading powers, holds a balanced trade and investment position in each of the major regional economic areas. For instance, Europe is less involved in Asia than the United States; and the Asian economies, in turn, are much less involved with Europe than is the United States. Added to the equation is the historical and current dominance of the United States in South and

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Central America, a fact which further underscores the reality that the United States is the only worldwide economic power at this time with strong ties in all regions.

The paradox stems from the fact that the huge US internal market and an abundance of natural resources leave the country much less dependent on trade than its major trading partners. Exports and imports have accounted for 18-22 percent of US GDP since the late 1980s, while the comparable figures for the EC were 45-47 percent and Asia 26-29 percent (developing Asia 37-47 percent).[1]

Proponents of various regional alliances often use numbers relating to the comparative size of regional (and national for the US) economies to give currency to their arguments. For instance, TAFTA supporters point out that the combined US-EU GDP represents 57 percent of total world GDP – true, but supporters of the Asia Pacific Economic Forum (APEC) are also quick to point out that US-APEC combined GDP is virtually equal in size at 55 percent of total world GDP (a Free Trade Area of the Americas would come in at about 40 percent of world GDP). The real significance of these numbers is a very different point than that advanced by regional agreement adherents: it is that a fully implemented TAFTA or APEC agreement (or even an FTAA, with the US at the center) is a very different animal than the many previous regional agreements among small countries or between a large country and several small countries. These three agglomerations of trading power would by size alone represent a major challenge to the multilateral trading system – a point underscored by WTO Director General Renato Ruggiero recently, when he spoke of his "great concern" for a future "where regional areas cover too many countries and too great a share of world trade – to the point where preferential deals become the rule rather than the exception in international trade relations".[2]

As regards US trading patterns with Europe, Asia and the Western Hemisphere, the United States clearly has larger trading ties with Asia than with the EU or the Western Hemisphere. In 1996, trade with the EU accounted for only 20 percent of total US trade, while US-Asian trade accounted for 36 percent. Trade with the Western Hemisphere amounted to about 17 percent of overall US trade. In absolute figures, total US-Asian trade in 1996 stood at $505 billion, 46 percent higher than US-EU trade which amounted to $275 billion. It is estimated that by the year 2003 US trade with East Asia alone will be twice that with Europe.[3]

As for EU trade patterns, intra-European trade among the constituent nations accounts for 61 percent of total EU trade. In its external trade (excluding trade among EU nations), Asia is a more important trading partner than the United States, garnering 27 percent of total external EU trade, as opposed to a US total of 18 percent. In absolute numbers, total EU-Asian trade was $416 billion in 1996, while total US-EU trade amounted to $275 billion in the same year. Trade between EU nations and the Western Hemisphere (excluding the US) constituted only 6 percent of total EU trade, or $92 billion in 1996.

Asian external trade patterns present the following picture: as with the EU, intra-Asian trade constitutes the large portion of trade by Asian nations, 40 percent of the total (though substantially less than the 60 percent intra-EU trade as a percentage of EU trade). Trade with the US constitutes 18 percent of Asian trade, while trade with the EU totals 14 percent of Asian trade (trade with the Western Hemisphere is a mere 2 percent of Asian trade, though it increased some 40 percent from 1993 to 1996).

The external trade figures for the Western Hemisphere demonstrate the dominant position of the United States, which represents 42 percent of total hemispheric trade, followed distantly by the EU with 16 percent and Asia with 12 percent.

Foreign Direct Investment

Interdependence is increasingly defined by investment and not by trade flows, and the picture of investment patterns among the major regions is quite different from that presented by trading patterns. Here, the relationship between the United States and the EU is the dominant fact: together, the United States and the EU control about 70 percent of total world foreign direct investment. European companies accounted for over 59 percent of total FDI in the United States, while 43 percent of total US investment went to the EU. In absolute numbers, total US-EU crossinvestment amounted to $721 billion in 1996.

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[1] Kim Anderson, Hope Norheim: History, Geography, and Regional Economic Interpretations, in: Kym Anderson, Richard Blackhurst (eds.): Regional Integration and the Global Trading System, St. Martin's Press, New York 1993.

[2] Renato Ruggiero: The Future of the World Trading System, Address to a conference sponsored by the Institute for International Economics, Washington, D.C., April 15, 1998 (mimeo).

[3] Marcus Noland: Implications of East Asian Growth, Working Paper Series No. 94.5, Institute for International Economics, Washington, D.C., 1995.

Asia took 19 percent of total US investment, while Asia constituted about 3 percent of EU investment. In absolute numbers, total US-Asian crossinvestment amounted to $248 billion in 1996 ($134 billion Asian in US; and $140 US in Asia). Total EU investment in Asia was about $33 billion in 1993. In the Newly Industrialized Economies (NIEs), Japan's investment accounted for 32% of their FDI stocks, followed closely by the US with 30%. The EU's investment stock in the NIEs accounted only for 18%. Japan is by far the most important Asian investor, and in 1993 Japan accumulated investment in the EU stood at $75 billion – contrasted with a total cumulative US investment of almost $240 billion.[4]

The US as Hegemon

The US has a balanced trade and investment portfolio, and thus its economic interests can best be fulfilled through world organizations such as the WTO, IMF and the World Bank. Of equal importance, however, is the reality also that the US alone among the major nations retains political and security leadership obligations that span the globe. This is not to argue that the United States always dictates outcomes in a unipolar world, but it is true (and not an endorsement of "American triumphalism") that Secretary of State Madeleine Albright is correct in her oft-repeated statement that the United States is the "indispensable nation."

Someday, Europe may achieve equality with the United States as a world power, but today, whatever its economic size, the EU rarely speaks with one political voice; and, as Bosnia demonstrated, it is often paralyzed on issues of defense and security (during the Gulf War, a Belgium diplomat lamented that "Europe is an economic giant, a political dwarf and a military worm").

Thus, Europeans both desire and depend upon US influence and power with regard to problems with Russia and other former Soviet nations and with Bosnia and other Balkan flashpoints such as Kosovo. In Asia, it is the United States which must lead in containing or at least channeling emerging Chinese ambitions as well as more immediate threats from North Korea. In South America, it is the United States which can exert strong influence to keep democratic governments on course and safe from traditional military coups. And finally, the US remains the central force cajoling and coaxing all the parties toward a peaceful settlement of Arab-Israeli conflicts.

The argument here is that over time any significant tilt of US trade and investment policy that gives substantial preferences to one region over others will inevitably cause resentment and redound against political and security objectives. Thus, a corollary to US political responsibilities is that its national interests are best served by adherence to multilateral economic negotiations and rules that provide worldwide benefits – a reality which Atlanticists who are proponents of TAFTA ignore when they envision a future "special relationship" bounded in the North Atlantic.

Regionalism in US Trade Policy

The balance of the article will describe and analyse the international economic consequences of multilateral versus regional approaches to trade policy. From the 1940s until the late 1980s, the United States steadfastly opposed derogations from MFN obligations and, therefore, most regional trading arrangements (Cold War exigencies account for the exception regarding the formation of the European Community). The United States essentially followed a two-track trade policy: (1) multilateralism, embodied in its leadership in the GATT, and (2) bilateralism-unilateralism, dictated by the political reality that GATT did not cover key trading sectors and by internal political demands that the US pursue bilateral negotiations – particularly with the EU and Japan – to achieve its trade policy goals. Unilateralism was linked directly to bilateralism, since the US also reserved the right to act on its own by enforcing its will should bilateral negotiations be unsuccessful.

Only during the 1980s did the US drift into regional alternatives through a combination of unlinked events and new forces and calculations in overall US trade policy. It should not be forgotten that the initiative for the US-Canadian and the subsequent North American Free Trade Agreements (NAFTA) came from Canada and Mexico respectively, and not from the US. By the Bush administration, however, there were forces pressing for new regional initiatives – specifically, Secretary of State James Baker, who was the real architect of Bush's call for a hemispheric free trade agreement, the "Enterprise for the Americas" program. Baker's motives had little to do with trade per se. His real goal was to persuade and pressure Latin American countries to pursue more sensible macroeconomic policies and to accept the US plan for restructuring their enormous public debts. The "Enterprise" initiative was thrown into the pot at the

[4] Ibid.

last minute as an inducement for these countries to accept the belt-tightening austerity implicit in foreign debt reduction.

It was only with the Clinton administration that regional trade initiatives assumed a priority equal to that of multilateral agreements. The 1995 Economic Report of the President states that the "most distinctive legacy" of the Clinton administration in the trade policy arena will be the "foundation it has laid for the development of overlapping plurilateral trade agreements as stepping stones to global free trade". The report reflects in part the strongly held views of a key architect of Clinton trade policy, Undersecretary of the Treasury Lawrence Summers, who just before joining the Clinton administration had stated, "Economists should maintain a strong, but rebuttable, presumption in favor of all lateral reductions in trade barriers, whether they be multi, uni, bi, tri, or plurilateral. Global liberalization may be best, but regional liberalization is very likely to be good".[5]

The Clinton administration followed through on Summer's assumptions, and by the end of the first term, the administration, in the words of one Wall Street Journal reporter, was "up to its ears in free trade pacts." For Latin America, the Miami Summit of the Americas pledged to complete negotiations for a hemispheric free trade arrangement by the year 2005; and in East Asia, the United States and other APEC nations committed themselves to achieving free trade in the trans-Pacific region by the year 2010 for the developed countries and 2020 for less developed countries.

In changing the focus of US trade policy toward Asia and Latin America, the Clinton administration was also candid about the underlying mercantilist goals behind the new priorities. In describing the president's key trade initiatives, the 1994 Economic Report stated, "The administration's trade policy can be described as export activism." Accompanying the regional initiatives, also, was the much advertised "Big Emerging Markets" program which aimed to target the ten largest emerging markets for US exporters. The president's 1995 Economic Report explicitly tied "export activism" with the FTAA and APEC by noting that "export and investment opportunities in emerging markets in Latin America and Asia will be a key engine of growth for the US economy over the next decade" and therefore the most important focus of US trade policy.

Europe

Though the EU had played a major role in negotiating the successful conclusion of the Uruguay Round multilateral negotiations, it only belatedly responded to the momentous regional movements in Asia and the Americas. Partly, this was the result of the lingering effects of a prolonged recession and continuing high unemployment; and partly, because the EU was preoccupied with internal reform – first the far-reaching decisions embodied in the Maastricht Treaty and then the inconclusive negotiations in the Intergovernmental Conference that led to the Treaty of Amsterdam. (It should be noted, though, that beginning in 1992 the EU did conclude a series of bilateral trade agreements with the nations of Eastern Europe, agreements which will eventually lead to their inclusion within the EU itself.)

Though Lady Thatcher had previously spoken in favor of a North Atlantic economic alliance, only in mid-1995 did a succession of European leaders begin calling for a formal free trade agreement – including then-British Prime Minister John Major, EU Trade Minister Sir Leon Brittan, and German Foreign Minister Klaus Kinkel. The US response, both in 1995 and down to this time, has varied from skepticism to cautious approval. Officials of the US State and Commerce Departments have generally been more upbeat, beginning with expressions of limited support in 1995 from then-Secretary of State Warren Christopher and then-Commerce Undersecretary Jeffrey Garten. Significantly, at the same time, then-Deputy US Trade Representative Charlene Barshefsky was less optimistic – a reaction which she has maintained since her promotion to US Trade Representative in 1996.

The most concrete results to date on the US-EU bilateral front stem from the very successful Transatlantic Business Dialogue (TBD) between the US and European corporations. This series of meetings has produced solid achievements in customs and product standard harmonization and in lobbying for tariff cuts on information technology. In addition, on a government-to-government basis, the creation of a bilateral New Transatlantic Agenda did lead to an important agreement establishing rules for mutual recognition of regulations in several sectors in 1997.

Further, over the past several years, the EU has bestirred itself in response to the movement for greater regional trade liberalization in both South America and Asia. It has signed several agreements

[5] Arvind Panagariya: East Asia and the New Regionalism in World Trade, in: The World Economy, 17, No. 6 (1994), pp. 817-839.

with the nations of MERCOSUR (Brazil, Argentina, Uruguay, Paraguay) which will lead to future negotiations of a free trade agreement; and the EU has joined Asian nations in annual trade and investment summits, beginning in 1995 (Asia-Europe Meeting: ASEM).

New Transatlantic Marketplace

In March 1998, led by EU Trade Minister Sir Leon Brittan, the European Commission formally presented concrete proposals for a new round of trade negotiations between the EU and the United States, under the umbrella title of the New Transatlantic Marketplace Agreement. The future of this proposal remains uncertain because the EU Council of Ministers could not reach agreement to go forward when it met on March 30: fourteen members supported the effort, but the French expressed strong opposition.[6]

Whatever the outcome in the near future, the NTMA does provide a map of potential areas for negotiations short of a full-fledged free trade agreement. The major provisions are:

1. A commitment to eliminate by the year 2010 all industrial tariffs on an MFN basis, provided a critical mass of other trading partners do the same;

2. A commitment to negotiate a free trade area in services, including the provision of full right of establishment, liberalization of market access through provision of national treatment, and elimination of regulatory obstacles on the basis of mutual recognition of the major rules for national regulatory systems;

3. Liberalization beyond existing WTO rules in the areas of government procurement, intellectual property and foreign direct investment;

4. Widespread removal of technical barriers to trade such as technical specifications and performance requirements, accreditation, information and labeling of goods, and specifications concerning test procedures.

In presenting the proposal, the Commission stated

[6] International Trade Reporter, Vol. 15, No. 13, April 1, 1998, pp. 563-564.

that it is "more than a trade policy initiative. It is also an important initiative for the EU's broader policy toward the United States, and should be considered in that light. Since the end of the Cold War we have taken a number of steps to restructure and refocus the EU's links with the United States, which remains our most important and complex external relationship".[7]

The Commission also set specific requirements for NTMA negotiations, including, among others, that they: should promote EU objectives in future multilateral negotiations within the WTO; should not lead to the creation of new trade obstacles to third countries or reduce their access to EU or US markets; should be consistent with existing multilateral rules in the WTO; and should preserve the EU's high level of protection for health, safety, consumers and the environment.

The most important self-imposed obligation for the NTMA is that relating to the rules of the WTO. For reasons set forth later, this commitment will present major challenges (and potentially insurmountable obstacles) to a US-EU agreement under the NTMA. The GATT rules do allow regional pacts under limited circumstances. Article XXIV of the GATT states that to be consistent with the multilateral system FTAs: (1) must cover "substantially all" the trade sectors among the partner countries; (2) must not raise barriers to trade to countries outside the FTA; and (3) must be implemented over a fixed period of time, generally considered to be not over ten years. In addition, Article V of the General Agreement on Trade in Services contains similar requirements for trade in services.

Evaluating Regional Trading Agreements

The wisdom of concluding a US-EU free trade agreement must be judged on two levels: one, in light of an overall assessment of the implications of regional trading pacts for the larger multilateral trading system; and two, in light of issues raised by the particular details of a US-EU agreement. This section of the article will review the arguments of critics of the Clinton's administration's move to raise regional trade agreements to equal status with new multilateral negotiations and the specific arguments against a US-EU free trade agreement.

Almost a decade ago, a perceptive European observer, Martin Wolf, now Chief Economics Leader Writer for the Financial Times, warned of the negative consequences of a US move to place high priority on regional pacts. Wolf wrote: "The fundamental issue ... is why the US has abandoned well over half a century of adherence to the unconditional MFN principle and now sees discrimination as a solution to its trading woes ... Historically FTAs have been the economic policy of the weak". And he warned: "The shift in US thinking towards FTAs, and more generally toward bilateralism as a principle, rather than a shamefaced expedient, is momentous. As the progenitor and most enthusiastic upholder of the unconditional MFN principle, the United States may well doom the GATT system in its present form by this defection".[8]

Wolf's central point that the United States acted as the lynchpin of the multilateral system remains valid in 1998, and the signal by the US that regional pacts will have assumed an equal priority in its national trade policy will inevitably have a debilitating impact on the WTO and the future role of multilateralism in the international economic system.

Recently, other trade policy analysts have raised a series of challenges to the Clinton administration's assertions regarding the positive benefits of FTAs. Five such arguments will be presented here.

First, the distinguished international trade economist, Jagdish Bhagwati, has taken the debate back to fundamentals and has argued that it is "folly to equate free trade areas with free trade" because "they are inherently preferential and discriminatory." A select group of nations are inside the tent, and the rest of the world trading system is outside.[9]

Second, and more specific to the substantive provisions of all FTAs, Anne Krueger, former president of the American Economic Association, has described the damaging political economic consequences of rules of origin. Rules of origin are border measures in FTAs to ensure that trade diversion does not occur, allowing countries outside the FTA to transship goods among FTA members. Rules of origin consist of negotiated domestic content requirements, and they

[7] For details of the proposal, see The New Transatlantic Marketplace: Communication from the Commission, to the Council, The European Parliament and the Economic and Social Committee, March 19, 1998.

[8] Martin Wolf: Comments, in J. Schott (ed.): Free Trade Areas and U.S. Trade Policy, Institute for International Economics, Washington, D.C., 1989.

[9] Jagdish Bhagwati, Anne Krueger: The Dangerous Drift to Preferential Trade Agreements, The AEI Press, Washington, D.C., 1995.

result in a maze of regulations – in NAFTA 200 pages are devoted to rules of origin. Often, as was the case with NAFTA, these negotiations result in increased protection – in this case for US textiles, apparel and automobiles. And because rules of origin must be renegotiated each time an FTA expands, producer groups have multiple opportunities to expand protection.[10]

Third, FTAs also increase the potential for the stepped up use of anti-dumping and other forms of administered protection against nations outside the agreement. When FTA members face major adjustment problems from the business cycle or lack of sectoral competitiveness, they are likely to lash out at countries not belonging to the pact – as Mexico did during its recent crisis and as the nations of MERCOSUR have done over the past several years. Both Canada and Mexico are pressing the United States (so far unsuccessfully) to exempt them from antidumping disciplines in the crucial steel and automobile sectors, a move that would result in much greater conflicts with nations outside NAFTA as adjustment pressure was deflected away from Canada and Mexico.

Fourth, the effort necessary to negotiate and carry out regional arrangements inevitably diverts attention and resources from multilateral obligations such as carrying out the complicated mandates of the Uruguay Round, administering the WTO efficiently and planning for new multilateral initiatives. One need look no farther than the United States to find this result – for the past four years, US trade bureaucrats have spent almost all of their time and resources either on APEC and FTAA assignments or on sectoral negotiations that carried over from the Uruguay Round. And at the same time administration trade spokespersons have consistently disparaged efforts to begin planning for new multilateral initiatives in the WTO.

Fifth, a trading world dotted with numerous separate bilateral and plurilateral FTAs, each with different timetables, tariff levels and nontariff barrier liberalization rules, would become enormously inefficient. Imagine the daunting task for corporate planners in multinational corporations such as IBM or Siemens as they attempt to sort out separate trade rules that govern their simultaneous operation in APEC, NAFTA, MERCOSUR and ASEAN – not to mention in individual countries such as Chile or Turkey, which have separate arrangements with regional groupings.

Arguments in favor of TAFTA

As noted previously, proponents of a TAFTA advance a number of political and economic arguments in its favor. First, in the broadest reach, it is argued that this free trade agreement could become the central mechanism to reinforce weakening transatlantic economic and security ties after the Cold War. As Belgium Prime Minister Jean-Luc Dahaene has stated, "The glue, which kept us together so long, has lost its strength."

Some European and American commentators also see TAFTA as a means of countering a "Pacific tilt" to US foreign and economic policy and as a counterweight to growing isolationism and unilateralism (as embodied in the Helms-Burton and Iran-Libya Sanctions Acts).

On the trade front, it is argued that because the EU and the United States have similar levels of industrial and technological development, national income, legal systems and social customs, it should be relatively easy to negotiate greater liberalization – particularly when compared with the unwieldy negotiations among highly diverse economies in the 135-member WTO. Generally, both Europe and America have low barriers to trade. After the Uruguay Round decisions are implemented the average tariff for industrial goods will be 3.6 percent for the EU and 3.5 per cent for the US; and it has been estimated that total elimination of tariffs in a free trade agreement would increase US exports to Europe by almost 11 percent and EU exports to the US by over 6 percent.[11]

The Downside

Over against these positive results, however, are an even greater number of negative consequences. In the first place, it is a mistake to make the facile assumption that a US-EU bilateral trade negotiation will be relatively frictionless because the EU and the US are similar in factor endowments and levels of development. Proponents of TAFTA must be reminded that what delayed the completion of the Uruguay Round for five years was not North-South conflicts but fundamental disagreements between the US and the EU over agriculture and textiles. And these issues have not gone away – particularly agriculture, which

[10] Claude E. Barfield: Standing Firm on Fast Track, in: Journal of Commerce, October 9, 1997.

[11] Jeffrey J. Schott: Reflection on TAFTA, in: Bruce Stokes (ed.): Open for Business: Creating a Transatlantic Marketplace, Council on Foreign Relations, New York, N.Y., 1996, pp. 32-42; see also Ernest Preeg: Free Trade Across the Atlantic, in: Journal of Commerce, November 15, 1995.

may be even more intractable as a result of increased pressure on EU farmers from the planned expansion to Eastern Europe.

In agriculture, even after full implementation of the Uruguay Round reforms, estimates are the EU will still retain equivalent tariff rates of almost 75 percent and the US rates of 30 percent. In textiles and apparel, US average rates will still reach almost 20 percent, while those of the EU will remain about 12 percent.[12] Thus, these issues remain highly contentious, along with other matters such as aircraft subsidies, government procurement and, most important, demands from the EU for cultural exceptions for liberalization of the movie and television industries.

The acknowledged difficulty of reaching agreement on agriculture and culture exemptions has led some TAFTA supporters to suggest that these issues be left out of the negotiations; but this raises even graver questions regarding WTO obligations. As noted above, Article XXIV of the GATT stipulates that regional trade agreements must include "substantially all" trade among the participating countries – and exclusion of agriculture or audiovisual services would clearly flout these rules. Indeed, the "substantially all" clause is also a direct barrier to the new EU Transatlantic Marketplace proposal, which is highly selective in the choice of issues for negotiation and which would become a clear violation of GATT rules unless the US and EU unilaterally extended the terms of an agreement on an MFN basis to all members of the WTO.

A third negative consequence of TAFTA relates more broadly to the implications for developing countries and regions, particularly in Asia and South America. Over the past decade, a number of the higher-income developing economies have become strong proponents of the multilateral trading system; and significantly, despite early predictions, during the Uruguay Round, they accepted the demands of advanced countries that areas such as services, intellectual property and limited investment rules be included in the negotiations. But a discriminatory pact between the world's two most advanced regions, particularly if it protected such areas as agriculture and textiles, would set back decades of efforts to convince these countries that open trade and investment under the rules of the GATT was in their collective national interests. As Horst Siebert of the Kiel Institute in Germany has written, "North America and Europe have constituencies that fear Asian productivity as the main source of job killing. Increased global competition might tempt political leaders to use TAFTA both as a protective shield and a leverage in bargaining with other countries." Because of this, he warned, "Non-TAFTA countries could understand TAFTA as a signal that the world's richest countries are more interested in jointly discriminating against the rest than in opening their markets to the developing countries. There is the danger that TAFTA would be seen as an only slightly modified form of the rich men's club".[13]

Siebert's warning could well be applied to the EU's proposed Transatlantic Marketplace agreement, which focuses on lowering industrial tariffs and major liberalization in services. It is likely to be met with hostility by developing countries – even with repeated avowals by the EU that nothing will be negotiated that violates WTO rules: viz., "The proposed tariff initiative will be explicitly and exclusively multilateral" and on services while the immediate goal is a "WTO compatible bilateral arrangement," the ultimate aim is to "(create) models for future WTO-rule-making."

What the EU seems to intend is a set of pre-negotiations which would become a "single comprehensive agreement" that formed the basis for a joint US-EU stance in the future multilateral negotiations. Developing countries in Asia, South America and Africa may well see this as naked coercion to ram through a "rich country" agenda – after all, it is not contemplated that they will be at the table when the original agenda, timetables and substantive reforms are hammered out.

Finally, extending Siebert's point further – and in contradiction to the goals of free market conservatives – there is the real possibility that social democratic governments in Europe would indeed ally with the protectionist wing of the Democratic party in the United States to press for a new interventionist agenda that would include an international social charter and new international environmental regulations.

In this regard, the position of the leader of the Democratic party in the US House of Representatives, Richard Gephardt (D.-Mi.), is an important barometer. In a 1997 statement on trade policy, Rep. Gephardt stated bluntly, "Labor and environmental provisions

[12] Jeffrey J. Schott, op. cit.

[13] Horst Siebert: The Transatlantic Free Trade Area, Lecture at the American Institute for Contemporary German Studies, Johns Hopkins University, Washington, D.C., December 14, 1995.

must be fully enforceable (in future trade agreements) with access to trade sanctions where necessary. We need to recognize that further upward harmonization is necessary in labor and the environment (in order) to further our interests in these important areas." Such provisions, he also stated, must be integrated directly into trade treaties themselves, and not shunted off as side agreements.[14]

It is also not without significance that TAFTA finds favor among adherents from the left and the right of the theory that free trade can only occur among economies which constitute "level playing fields" in terms of national income averages and levels of development. Thus, TAFTA is the only new trade agreement that both the AFL/CIO and Patrick Buchanan have endorsed.

While the Clinton administration has not spoken out boldly, it has taken steps to push labor and environmental regulations onto the trade agenda. It demanded that such provisions be included in wording for a proposed OECD agreement on international investment rules, and it has suggested adding similar language as a precondition for IMF and World Bank loans.

All of this stands in direct conflict with the assumptions of free marketeers that "free trade is its own reward" and that removing trade barriers is in reality an extension of the national domestic goals of deregulation, privatization and "downsizing" government. For this reason, free traders should think long and hard before fostering a potential alliance between European and American dirigiste social democrats.

Alternative Paths

The United States and Europe are not without plausible and significant alternatives to a discriminatory TAFTA in advancing the cause of open markets and free trade and investment. One important step would be to jointly announce that they were accelerating the dates for completing the commitments undertaken during the Uruguay Round, some of which stretch out over a decade. Here the agglomerated market power of the US and the EU would yield great benefits and would provide a powerful challenge and motivation for other nations to step up their timetables for compliance. In addition, building on the accomplishments of both the Transatlantic Business Dialogue and the New Transatlantic Agenda, both governments and the private sector could work to expand substantially the number of Mutual Recognition Agreements for regulations and rules for testing and accreditation.

A slightly more daring offer would build upon the EU Transatlantic Market proposal and would entail the announcement, after bilateral consultations, that the two trading powers would negotiate the progressive elimination of all industrial tariffs by the year 2010 and extend this commitment unilaterally on an MFA basis to other members of the WTO.

In the end, however, the greatest single joint effort the US and the EU could mount would be a strong alliance to push for a new round of multilateral trade negotiations, the "Millenium Round" as WTO Director General Renato Ruggiero has labeled it. Both sides took the lead in the preparations leading to the Uruguay Round, and both have a number of joint venues to garner worldwide support for a new effort to advance the multilateral agenda, including G-7 meetings, annual WTO Ministeral Meetings and public-private summits such as the Transatlantic Dialogue. Even without formal negotiations, the two parties could begin analysis and preparations for tackling new areas such as investment, competition policy, environmental concerns and further advances in services and intellectual property.

At the moment, the world seems headed for a "spaghetti bowl" of complicated and ultimately efficiency-decreasing bilateral and regional trade pacts. But despite the current disinclination to undertake the daunting task of pulling together 135 nations for a new WTO round, the logic is implacable and grows right out of the collected assumptions behind the fragmented regional and bilateral efforts. The United States and other APEC nations are committed to free trade in the Pacific by the year 2010 (2020); the United States and Latin America are committed to an FTAA by the year 2005. Europe, in turn, is committed to begin negotiations leading to free trade with both Asia (ASEM) and with MERCOSUR. Proponents of a TAFTA argue that large advances are possible in advancing open markets between Europe and North America over the next few years. If all of these efforts are within the realm of possibility, the question inexorably becomes: why not scrap the unwieldy separate negotiations and move directly to the WTO in Geneva? Logically, this is the only answer. But the key question is whether either the US or the EU – the indispensable catalysts for a new multilateral round – can summon the political will to seize the moment.

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[14] Claude E. Barfield (ed.): Expanding U.S.-Asian Trade and Investment: New Challenges and Policy Options, The AEI Press, Washington, D.C., 1997.