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## The Dog That Failed to Bark: The Climate for Trade Policy in the European Union

Martin H. Wolf

The question raised by the trade policy of the European Union today is the one once raised by Sherlock Holmes: why did the dog fail to bark? Why, in this case, has the European Union—with its high unemployment, belief in the need to harmonize policies toward the environment and the labor market, and concentration on its internal development and, to a lesser degree, on its relations with its “near abroad”—not become more protectionist? The answer to this question is linked with another: how far can and will the European Union provide the impetus toward global liberalization that is no longer coming from the United States?

This chapter will start by looking at the recent trade policy record of the European Union. It will then consider the political, intellectual, and economic pressures for protection, followed by a discussion of the corresponding forces for liberalization. Finally, it will look at what the European Union is likely to seek in the World Trade Organization (WTO) and, in particular, whether it will become a strong proponent of further global liberalization.

To anticipate: there is at present remarkably strong resistance to protectionism within the European Union, although that is at least in part an accident of history—the liberalizing influence of Sir Leon Brittan as commissioner for external trade policy. This aversion to protectionism nevertheless is quite likely to last. At the same time, the European Union remains so engrossed by its internal development—Economic and Monetary Union, the intergovernmental conference for revision of the treaties,

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*Martin H. Wolf is associate editor and economics columnist for the Financial Times.*

and enlargement—that it may be unable to focus its energies on global trade liberalization, however much that might be to its own benefit.

## Recent Record

In a review of EU trade policy in 1995, Brian Hindley of the London School of Economics (1995, 16) asserted that:

[B]y and large, this has been a good year for EU trade policy: perhaps the best on record, though the competition, admittedly, is not very strong. Anti-dumping is still a black spot, but even there, discipline is appearing. The structure of EU policy for trading with countries of the former Soviet bloc has been completed, and while it is far from perfect, it is also far from bad. A new initiative towards trade with non-members on the eastern and southern shores of the Mediterranean has been launched. In the US-Japan dispute over motor cars, and again after US withdrawal from the WTO negotiation on financial services, the Commission acted with a decisiveness that would have been unimaginable a few years ago. And to top off the year, France could not get enough support from other EU members to succeed in its effort to tighten EU quotas on the screening of foreign films on television.

It is important that the European Union take its responsibilities seriously in this way because it is still the world's largest trading entity overall, although its importance to the outside world is in decline as it turns increasingly inward. In 1994, the EU share in world merchandise exports (excluding internal trade) was, according to the WTO's *International Trade 1995*, 20.1 percent and 17.8 percent of world merchandise imports. Corresponding US shares were 15.9 percent and 21.4 percent. The European Union appears to be as open to trade as the United States: trade in goods and services as a share of EU GDP has been consistently about 22 to 25 percent over the past 15 years, compared with about 21 to 22 percent for the United States (WTO 1995, vol. II, 12).

All in all, the European Union's external trade policies over the past several years present an encouraging picture, particularly when contrasted with how things looked as recently as 1990, at the supposedly final Brussels ministerial meeting of the Uruguay Round.

- **Uruguay Round completion.** After much huffing and puffing, the European Union played a significant role in bringing the Uruguay Round to a successful conclusion, even though this involved a commitment to liberalization, by 2005, of the Multi-Fiber Arrangement, which governs trade in textiles and clothing, along with limited concessions on trade in agricultural products. The European Union is also committed to phasing out the agreement with Japan on imports of motor vehicles by the end of 1999, currently an exception to the elimination of "gray area" measures in the WTO Agreement on Safeguards.

- **Common external tariff.** The common external tariff will be lowered, as a result of the Uruguay Round, by an average of 37 percent, with a final average rate for industrial products at a mere 3.6 percent and the bulk of duty rates between 3 and 10 percent (WTO 1995, vol. II, 13). Tariff dispersion is, and will remain, smaller than in the United States.
- **Single Market program.** Most residual national restrictions on trade with third countries have been eliminated. The Single Market program has also had other important, positive effects on trade, including coordination of procedures for award of public works contracts, willingness to negotiate mutual recognition of standards, and extension of the benefits of EU public procurement legislation to signatories of the GATT Government Procurement Agreement.
- **Telecommunications and other services.** Albeit slowly and painfully, the European Union has come to realize the need to liberalize telecommunications, which is due to be completed by January 1998. More difficult are audiovisual services, where the French attitude is strongly protectionist, purportedly for cultural reasons. Also problematic is air transport, where the need to create a competitive market has not yet been fully recognized by member states, particularly those responsible for the flying dodos—Air France, Alitalia, and Iberia.
- **Antidumping.** Antidumping remains the protectionist weapon of choice in the European Union, as in the United States. The Uruguay Round text on antidumping—“which was corrupted by EU and US tactics in blocking reform” (Hindley 1995, 20)—failed to remove the obvious absurdities in the methods that may be employed to calculate dumping margins. Furthermore, the new EU procedure, agreed in March 1994, allows the EU Council to determine antidumping action by a simple, rather than qualified, majority, which will make it easier to reach a protectionist decision (WTO 1995, vol. I, 61).

Encouragingly, however, the Court of First Instance, now responsible for antidumping decisions in place of the European Court of Justice, took a robust line against the Council in its consideration of antidumping duties imposed on imports of ball bearings from Japan (Hindley 1995, 20). In 1994-95, the European Union imposed definitive antidumping duties in 21 cases—bad enough, but far behind the 48 imposed by the United States (see chapter 13).

The European Union is also proceeding with its regional arrangements.

- **Relations with eastern neighbors.** The European Union now has in place a complete structure for trade policy toward Central and Eastern Europe. The lowest rung of the ladder consists of Partnership and Cooperation Agreements (PCAs) with the successor states of the former

Soviet Union, except the Baltic republics. The next rung consists of Trade and Economic Cooperation Agreements, often called “interim agreements.” The top rung supports the Europe or Association Agreements, whose provisions are largely the same as the interim agreements, but which are viewed as precursors to membership. The latter now cover Poland, the Czech and Slovak Republics, Hungary, Romania, Bulgaria, the Baltic states, and Slovenia. All of these arrangements are, however, vitiated by safeguards and exceptions, of which the most important is for agriculture.

- **Relations with Mediterranean neighbors.** A new initiative is under way to create a free trade area by 2010 involving the European Union and 12 Mediterranean partners: Morocco, Algeria, Tunisia, Egypt, Jordan, Syria, Lebanon, Israel, the Palestinian autonomous territories, Turkey, Cyprus, and Malta. Some of these countries—notably Cyprus and Malta—are expected to become members of the European Union in the meantime.
- **Relations with North America and East Asia.** The idea of a Trans-Atlantic Free Trade Area has been canvassed, notably by the foreign ministers of Germany and the United Kingdom. On 3 December 1995, the European Union and the United States signed a New Transatlantic Agenda, which was accompanied by a broad Joint EU-US Action Plan (Hindley 1996, v). Meanwhile, the European Union’s growing interest in East Asia has been signaled by the summit of European heads of government with their East Asian counterparts in Bangkok in late February 1996.

## Pressures for Protection

The pressures for a more protectionist stance make the generally liberal performance on trade policy both intriguing and impressive. These pressures come on several fronts.

## Dismal Economics

In 1995, according to the Organization for Economic Cooperation and Development (OECD), the overall rate of unemployment in the European Union reached 11.2 percent, compared with 5.6 percent in the United States and 3.1 percent in Japan. The lowest the EU rate of unemployment has been since 1981 was 7.9 percent in 1990. Employment in the European Union was 145.5 million in 1994, as against 151.1 million in North America, even though the latter had a smaller population. Since 1980 the participation rate in the European Union has stagnated at about 66 percent, while

in North America it has risen from the already higher level of 71.2 percent to 74 percent.

If the poor employment performance of the European Union is one reason strong protectionist pressure might be expected, another is relatively slow economic growth. Between 1990 and 1995, the European Union's real GDP expanded by 7.6 percent, while that of the United States rose 9.7 percent.

## **Populist Politics**

The European Union's poor employment record creates the backdrop for populist politics. Jean-Marie le Pen in France is the most obvious example. The Anglo-French billionaire Sir James Goldsmith has been elected to the European parliament on a protectionist platform expounded in a book entitled *The Trap* (1994). Sir James is Europe's pluto-populist counterpart to Ross Perot and has now taken his money with him to England, where he is supporting not protection, but a referendum on the United Kingdom's involvement with the European Union.

## **Philosophy of Harmonization**

Finally, there are intellectual reasons for adopting a protectionist or at least a trade-restrictive stance. There is not, *pace* Sir James, that much convinced protectionism in Europe these days—less than in the United States, it often seems. It is not an intellectually respectable position even in France, traditionally the most protectionist of the large European countries, although concern about the economic effects of “globalization” are beginning to reawaken protectionist sentiments. Jacques Attali, for example, the former adviser to president François Mitterrand and ousted head of the European Bank for Reconstruction and Development, has indicated his fear of the social consequences of Anglo-Saxon liberalism and called for a culturally, socially, and industrially protected Europe (Lloyd 1996, 24).

Furthermore, while protectionism has lost respectability, a parallel change has been happening to liberalism, notably in Germany. The pressures of global competition and high unemployment have eroded the staunch support for liberal trade in that country. It would be fair to argue, therefore, that just as there are fewer diehard protectionists nowadays, there may also be fewer convinced free traders.

Hitherto, protectionist attitudes have revealed themselves more modestly in calls for harmonization of standards. The argument is not just that trade between countries with vastly different standards is vaguely unfair, but that it erodes the capacity of the country with the higher standards to maintain what its people desire.

As André Sapir notes (1995, 796), when the European Union was initially formed, "The problem of harmonization of social policies was a subject of intense discussions." In the end, however, there was little call for harmonization of social policy in the Treaty of Rome, with the exception of equal pay for men and women. Subsequently, the issue hardly arose during the years of fast growth, 1958-73, described by some as a period of "benign neglect" of social policy.

Since then, the climate has changed. With the rise in unemployment and an increasingly heterogeneous membership, concern grew over "social dumping," particularly in the rich core countries of the European Union. This was reflected in the Single European Act, aimed at establishing the single internal market, which included articles on occupational health and safety standards and collective bargaining. The explicit aim was to introduce a "social dimension" into the European Union.

This was taken a step further with the Social Charter, adopted in 1989, which was designed to signal the European Union's collective commitment to social rights. But its main effect has been on occupational health and safety, largely because it was only here that measures could be passed by qualified majority voting, under the Single European Act, rather than requiring unanimity.

This defect, as it was seen by proponents of a social dimension, was to be rectified in the Maastricht treaty. But adamant British opposition pushed the new Social Charter into an annex. The main effect of this action will be to unblock the adoption of the parts of the Social Charter's action program that previously required unanimity. But the price has been British exclusion from its purview.

This history is not important for itself, but because of what it would seem to imply for the European Union's view of the preconditions for mutually beneficial world trade. In the area of labor and environmental standards, members of the European Union have agreed that even among themselves, a relatively heterogeneous group of countries by world standards, a degree of harmonization is required. It would seem logical, therefore, to expect the European Union to demand similar, but inevitably still more intrusive, harmonization where the rest of the world is concerned (Wolf 1994, chapter 5).

The EU position on labor and environmental standards has been indicated by Sir Leon Brittan himself, who argues (1995, 767) that "in order to sustain open trade policies and to maintain the liberalizing trend of the last 50 years, we have to continue to convince the world's citizens that open trade rules are good for them and fair, both to them and to everyone else. Indeed not just to everyone else, but also to animals, plants, and the rest of the world environmental system." At the same time, he asserts (1995, 766): "The Commission is not suggesting that trade policy instruments bear the brunt of our social or environmental policy objectives

worldwide. On the contrary, they can only be one addition to the already extensive armory of assistance measures used by the Commission in its bilateral and multilateral assistance programs.”

## Forces for Liberalism

While there are indeed pressures of different kinds for protection or more subtle trade-restrictive measures, there are also, happily, countervailing forces.

## Happier Economics

The performance of the European labor market is dismal indeed, but it is not the source of fierce protectionist pressure one might expect. Why is this? The principal reasons are as follows:

- In all European states a relatively generous welfare state cushions the long-term unemployed, most of whom are unskilled, from the consequences of their predicament. It is worth noting that in Europe in the early 1990s, before the present period of sluggish growth, more than half of the unemployment was long-term (Eltis 1995, 4).
- In 1994 in France, the proportion of net income from work replaced by social assistance benefits—for a household containing a couple and two children with a single earner, on two-thirds of a production worker’s average wage—was 83 percent after five years of unemployment (OECD 1996, 32). The corresponding ratio for Germany was 80 percent. For the bulk of people in this position, the rewards of returning to work are so modest that their unemployment can reasonably be judged semi-voluntary.
- Because the distribution of income from earnings is so much more unequal in the United States than in European countries, the real incomes of working people in the bottom 20 percent of the US distribution are below those of equivalent workers in wealthier European countries, such as France or Sweden (Atkinson 1996, 23). Consequently, because many Europeans on welfare, particularly households with children, receive benefits that are such a high proportion of their previous earnings, they, too, would often enjoy higher real incomes than low-paid US workers.
- Other than the United Kingdom, European economies have experienced no significant increase in the inequality of earnings over the past one and a half decades. This is, no doubt, partly because of the welfare state, but it is also because of a set of social institutions, expectations,

and pressures (OECD 1996, 59-60). Combined with the welfare-benefit cushion, these social norms help reduce the fear of unemployment, since it means that the next job need not pay much less than the previous one. Furthermore, the majority of working people have enjoyed rising real disposable incomes.

- The proportion of prime-aged men in employment in the big continental European countries is high, comparing well with corresponding ratios in North America: in Germany and France, for example, the proportion of men between the ages of 25 and 54 in employment was 87.3 and 86.6 percent, respectively, in 1995, as against 87.6 percent in the United States (OECD 1996, 188). The big differences are to be found in the low rates of employment of young people (except in Germany, where youth unemployment is very low) and higher rates of inactivity for older men and women (the exception for the latter being the Scandinavian countries). Ethnic minorities also tend to suffer from higher unemployment than others. This pattern sustains men in their traditional role as breadwinners during the prime years of life at the expense of other categories of workers. By reducing the social distress of high unemployment, this structure of unemployment mitigates potentially adverse effects on trade policy.
- More generally, there is a strong insider-outsider distinction in European economic life. It may be expected therefore that protectionism will tend to rise when native-born citizens, and not only guestworkers, begin to be affected by job losses on a large scale. This is now happening in Germany, for example, as German enterprises follow the “downsizing” path of their North American peers.

## **Liberal Business**

In addition to the defusion of labor market pressures, the interests of business are becoming more complex and diverse as their investments abroad increase. Here, too, the question that Secretary for Labor Robert Reich asked in the US context arises: who is European?

German engineering companies that have invested in Central and Eastern Europe or electronics manufacturers with production in East Asia need a smooth flow of trade between their subsidiaries and European markets. It is troublesome, for example, when a European enterprise makes dumping complaints against imports from the subsidiaries of other European enterprises, as happened when Philips complained about imports from East Asia by the French enterprise Thomson. It becomes absurd when, as Hindley notes (1995, 21), Komatsu, Japan’s largest producer of construction equipment, claims antidumping protection against imports of excavators made by South Korean producers.

More broadly, globalization has increased the need for European businesses to be able to transact freely across borders. This is why business has become a strong supporter of attempts to eliminate barriers to trans-Atlantic trade, such as standards. Another example of this trend was the Swedish Industry Federation's call for outright abolition of already-low EU tariffs.

## **Bureaucratic Politics**

Another reason the liberalizing impulse has so far won over protectionist pressure is political. In particular, while the European Union contains democracies, it is not itself a democracy. The powers of the European parliament have increased with the Maastricht treaty and are likely to increase once more, after the conclusion of the present intergovernmental conference. But the broad point is likely to remain valid.

Enormous power has been deliberately vested in bureaucracies, notably the European Commission, acting in concert with national bureaucrats meeting in committees (notably the Article 113 Committee) largely free from direct ministerial oversight. These bodies are not responsible to any specific parliamentary organization and can, within limits, frame whatever policies they collectively see fit.

The word deliberately is used above for a simple reason. The structure of the European Union reflects both a French tradition of administrative initiative and a wider postwar anxiety about populist politics. For both reasons, the European Union is designed to protect the permanent interests of the European states from whatever temporary passions may seize their citizens.

Within this structure, it is possible for a determined and capable official, such as Sir Leon Brittan, to seize the initiative and set the agenda. That is precisely what he has done, with strong support from officials and politicians in several member states, not least his own. Even France, often at odds with his policies, has found it impossible to contain him.

The role of the Commission is reinforced by the realities of negotiation. It is necessary to give the representatives of the European Union a mandate that makes negotiation possible. Ideally, it needs to be a fairly broad one. And so it has tended to be, except in areas where sensitivities are great. Armed with such a mandate, the negotiators reach the best deal they can. It is difficult for member states to challenge, let alone overturn, what has then been agreed, since that would raise questions about the capacity of the European Union to enter negotiations in good faith.

The only exceptions to this general rule tend to arise when a council of sectoral ministers, such as those for agriculture, is involved, since results in that sector concern them so closely. In this case, negotiators tend to be tightly constrained. In particular, ministers of agriculture make it virtually

impossible to achieve the cross-sectoral trade-offs necessary for ultimate success in a complex negotiations.

The European Union shares competence for trade policy with member states, possessing exclusive competence in goods, but sharing it in services and intellectual property. This would appear to reduce the capacity of the Commission to set the agenda, but appearances are somewhat misleading. In practice, the Commission remains the negotiator. The sole constraint is that where an issue is not covered by EU competence, unanimity rather than qualified majority voting is required.

The central role of generally enlightened bureaucrats is reinforced by three other features of European politics: the power of political parties, the weak political position of populists, and the fragility of most sectional lobbies (compared with those in the United States).

Politics in most European countries are run by party machines, whose strength is increased by the list systems often used in systems of proportional representation. In France, the focal role is played by the president of the Fifth Republic, an elected *roi-soleil*. A party's policies are normally decided at the top by a small group of people, perhaps only one. Party members are then expected to accept the result. Where parties receive public finance, the pressure of supporters is further reduced. Such strong centralized parties are immune to all but the sectional lobbies.

Given the strength of established parties, it is difficult for charismatic outsiders to obtain a foothold. Votes for such people tend to be gestures of protest, made by outsider groups that feel disenfranchised by the political process—as indeed they are. The closest such a figure has come to real power was Silvio Berlusconi in Italy, but his policies were relatively moderate, and his short-lived triumph was a consequence of the collapse of postwar Italian politics. So long as the majority of Europeans continue to prosper, as they do, the relatively conservative political establishment of today should survive. Nor should the deep scars left by the 1930s be forgotten. Europe has been inoculated against nationalist populism by exposure to the most virulent form of that disease ever known.

Finally, where lobbies exist, they are still largely national. Even at that level, the strength of European bureaucracies and parties makes governments far less amenable to lobbying than in the United States. In important respects, American trade policy has been privatized, with the US trade representative acting as no more than the representative of particular sectoral interests. Such a situation is inconceivable in Europe.

At the European level, lobbies have to deal with the Commission. The principal way to shift the Commission is by argument and appeal to its interests, since it needs neither votes nor money. Again, this reduces the ability of lobbies to achieve their desires, at least when these are judged to be strongly opposed to the general interest. Only powerful lobbies, such as farmers, are able to override these constraints, and even they

might find it impossible if they did not have an EU ministerial council of their own.

## **Changing Membership**

Also important have been the changes in EU membership. The last enlargement has substantially shifted the balance of member-state opinion in favor of liberalism. Austria, Finland, and Sweden may not be pure free marketeers; they are all suspect in varying degrees on subsidies, agriculture, or domestic corporatism. But as small countries with internationally successful industrial sectors, they are committed to global free trade and multilateral rules.

## **Liberal Philosophy**

Ideas play a central role in determining the agenda bureaucrats pursue. The important fact is that the general balance of informed opinion on trade policy questions is at least mildly liberal. True, there is concern about labor and environmental standards, but this is not seen, at least by the principal policymakers, as an excuse for protectionism but rather as a sop to would-be protectionists.

## **Adherence to Multilateralism**

Quite apart from any general liberalism, the European Union also has a specific need for the WTO. Unlike the United States or Japan, it has no credible regional alternative to the global system if it is to gain access to dynamic markets or markets with dynamic potential. The United States can pursue a Latin American and an East Asian option; the Japanese at least have the latter. For the European Union, the closest regions are Africa, the Mediterranean, Central and Eastern Europe, and the former Soviet Union—none of which offers any immediate prospect of dynamism. Even Central and Eastern Europe, where growth potential is good, is too small a region to have any serious impact on the European Union. In 1994, for example, the European Union's exports to Central and Eastern Europe and the former Soviet Union were a mere \$57 billion, less than 1 percent of GDP and 4 percent of total exports.

The realization of the importance of the multilateral system has been greatly enhanced by growing doubts in the United States over the desirability of adhering to multilateral norms. By providing Sir Leon Brittan with an opportunity to portray the European Union as champion of multilateralism and the United States as a renegade wrecker, this trend has further cemented the European Union's liberal stance. It is hard to flout rules of which you purport to be a staunch defender.

In sum, the European Union needs the WTO because it has no real alternative. Many, if not all, of its policymakers understand this.

## **WTO Agenda and the European Union**

What then may be expected of the EU approach to global trade policy over the coming years? Can it be a real leader? What will be on its agenda? Will it be broadly liberal?

### **Underlying Attitudes**

The general inclination of the European Union seems likely to be modestly liberal, at least as long as Sir Leon Brittan retains his current position. The European Union has also, it appears, come to believe in the central importance of the WTO, just as—or, more likely, because—the United States does not.

Yet three fundamental obstacles must be recognized to its playing a leading role in global trade liberalization:

- The European Union is ill-equipped to cope with massive structural changes and fears that large-scale trade liberalization will precipitate such changes. This is not just an issue of further liberalization of agriculture. Huge job losses are feared in such sectors as telecommunications and civil aviation. These are obstacles not just to external liberalization, but even to completion of the internal liberalization of the EU market.
- External trade is the Cinderella of EU policymaking. Far more important to its leaders are two other concerns: internal development and enlargement to the east. In particular, the leaders give far more weight to Economic and Monetary Union—due to begin in January 1999 and to be completed for the first entrants by 2002—and the intergovernmental conference for reform of the treaties, now under way, than to trade. This has advantages and disadvantages—advantages to the extent that it allows the Commission to push liberalization onward and disadvantages to the extent that the European Union is constrained from launching big initiatives, since that would require strong support from heads of government.
- The European Union is a headless organization. While the Commission does have freedom of maneuver, it cannot act as a US administration, with a fully committed president behind it. It may help define the agenda. It may pursue some liberalization. But it is in a poor position to lead the world.

## New Agenda of the European Union

What is the global trade policy agenda of the European Union? These are the new items that appear to be on its agenda:

- **Trade and competition.** As Professor Alexis Jacquemin of the Université Catholique de Louvain notes (1995, 781), “Today it is a Community priority to promote a series of bilateral, trilateral, and multilateral initiatives to ensure that activities having an international dimension are subject to effective competition.” But does this mean the European Union might be prepared to let competition policy replace its use of antidumping? The answer is a resounding no, even though some on the Commission recognize antidumping for the disreputable farce it is.
- **Trade and investment.** The European Union has complained (WTO 1995, vol. II, 68) that “in the absence of a single comprehensive set of rules, the present patchwork of several hundred bilateral investment treaties, regional initiatives covering investment (NAFTA, APEC), and several partial OECD and WTO instruments constitute a fragmented picture certainly inappropriate for economic actors, notably small and medium enterprises, who intend to or are operating world-wide. . . . Consequently, a coherent set of rules for foreign direct investment (FDI) would assure that the rules of the game are the same for everyone, an important step for the benefit of international economic development.” The rules the European Union envisages would focus on “(i) achieving generally free access for investors and investments; (ii) national treatment for investors and their investment once they are established; as well as (iii) effective investment protection and accompanying measures to uphold commitments. (iv) In addition, an effective dispute settlement procedure could be a part of those rules.”
- **Trade and the environment.** It is the European Union’s view (WTO 1995, vol. II, 66) that “in certain cases and under certain conditions trade measures can be a potentially useful instrument to enforce internationally agreed standards or to enforce multilateral environmental agreements. The conditions and rules under which the use of such measures are to be allowed should of course be the result of international consensus and should be negotiated in the WTO Committee on Trade and the Environment.”
- **Trade and labor standards.** With Sir Leon’s support, it now seems clear that the European Union, with strong backing from France, will ally with the United States in seeking some sort of agreement on minimum labor standards. As Sir Leon notes (1995, 766-67), “The introduction of social issues into the trade fields is not a first-best or self-contained policy for improving social standards worldwide. It is however a poten-

tially useful additional tool, and it is in any case an essential response on the part of European citizens.”

## Trade Strategy

Alongside these new concerns remains the trade agenda inherited from the Uruguay Round. Here the fundamental question is what the European Union is prepared to concede in order to promote a dynamic process of liberalization within the WTO. Is it, for example, prepared to take agricultural liberalization much further? Is it prepared to consider substantial limitations on its ability to compute antidumping margins as it pleases? Is it prepared to contemplate a radical toughening of the GATT's Article XXIV on customs unions and free trade areas to control the many new issues these now raise? In short, how far is it prepared to offer a vision of a global era of free trade within which it would be among the leaders?

The answer so far is that it is not. But this may change, for the European Union appears to face serious strategic challenges. One is the shift of the United States toward unilateralism and regionalism. Another is the need to avoid being cut out of significant trading opportunities by the growth of preferential trade arrangements (PTAs) in the Western Hemisphere, East Asia, and the Pacific Rim.

Responding sensibly to the emergence of APEC is particularly important for the European Union. APEC creates two distinct threats. One is that it would ultimately become a preferential trading arrangement, driven by the unwillingness of the United States to offer unrequited liberalization to any significant economy. This US hostility to “free riders” is bound to curtail willingness to implement its APEC commitment to free trade by 2010 on a nondiscriminatory, or most-favored nation, basis. Any US discrimination could be combined with nondiscriminatory liberalization by its Asian partners. But a free trade arrangement, with rules of origin, would still have to be established among APEC members.

Another possibility is that APEC's pledge to liberalization turns out to be on an MFN basis, but APEC becomes a forum in which rules governing trade in areas not yet covered by the WTO are developed. The risk for the European Union is that it would then be faced with a *fait accompli* on the development of such new rules.

The risk of exclusion from discussions that frame the rules for the future development of world trade is one of the more potent reasons for the European Union to find a way to “dock on” to APEC discussions. There are two possible routes. One, suggested by Noboru Hatakeyama in his discussion of chapter 3 by Robert Lawrence, is the creation of a forum to bring APEC and the European Union together. Another would be to move discussions into the WTO.

The second is likely to be the more attractive. The proposed Asia Pacific Europe Economic Cooperation forum would institutionalize a subgroup of economies that account for some three-quarters of world output and trade. Such a group would be almost as unwieldy as the WTO. Countries such as India, Brazil, and Russia would rightly resent being excluded. And such a forum would lack the resources and institutional credibility of the WTO.

By far the wisest response, therefore, is to bring APEC's efforts within the broad fold of the WTO, this being what the majority of the Asian members of APEC themselves desire. One way to do this would be to propose a *global* commitment to liberalization by 2020, as has already been agreed in APEC. This suggestion was, in fact, made by Ian Lang, president of the UK Board of Trade, at the end of April. It remains up to the European Union as a whole to seize on this idea and so provide the leadership that the WTO needs.

For the European Union, the WTO is the only big trade game in town. Realization of this fact might be enough to make the European Union a more enthusiastic player in multilateral liberalization, even if not the captain of the team.

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