

Is Trade Liberalization's Star Fading or Simply Flickering?: European Union Trade Policy Adapting to an Uncertain Paradigm

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International Trade Policy Roles

1. Facilitate trade as an “Engine of Economic Growth”
2. Assist in achieving broader policy goals
 - ❖ e.g. Foster changes needed for economic development
 - ❖ e.g. Inhibit the changes brought by “Globalization”
3. Sanctioning (to provide an incentive to alter “unacceptable” behaviour)
 - ❖ e.g. The hunting of seals
 - ❖ e.g. The unsustainable harvesting of tropical timber

International Trade's Ruling Paradigm

❖ From the end of the Second World War until now the ruling paradigm for the policy role of international trade has been to:

Facilitate Trade as an “Engine of Economic Growth”

History Matters!

- ❖ By the late 1940s economic arguments that attempted to associate protectionism with societal benefit were totally discredited by trade theorists in economics
 - Meant protectionist were relegated to long and stubborn rearguard actions in aid of their “vested interests”
- ❖ The international trade experience of the 1930s – “beggar-thy-neighbour” trade wars – led policy makers to conclude it should never be allowed to occur again
 - “New World Order” Multilateral Institutions – UN, IMF, World Bank
 - and the International Trade Organization (ITO) – but only the GATT

History Matters!

❖ GATT as the manifestation of the ruling paradigm:

- “Recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods,
- Being desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce ... (General Agreement on Tariffs and Trade, 1947)”.

The Paradigm's Long Rule

- ❖ The GATT's long run progress toward trade liberalization
 - From 1947 multiple "Rounds" of negotiations reduce industrial tariffs from 50% to 5%
 - 1995 WTO negotiated to broaden the purview for liberalization
 - Widening acceptance of the paradigm – GATT/WTO membership expands from 20 to 163
- ❖ Alternative institutional arrangements accepted – regional trade agreements

Regional Trade Agreements

- ❖ Regional trade agreements were contentious in the GATT
- ❖ Allowed because they were in line with the liberalization paradigm
 - Smaller numbers meant faster progress than multilaterally
 - Could move into areas where multilateral agreement could not be reached
- ❖ The EU is the “poster boy” of what can be achieved regionally – consistent with the paradigm

The European Union and the Paradigm

- ❖ The EU (consistent with the paradigm) achieves far more than the GATT/WTO or any other regional agreement (e.g. NAFTA, Mercosur, ASEAN)
 - Removal of tariffs and other border measures
 - Considerable regulatory harmonization
 - Free movement of capital
 - Recognition of professional qualifications
 - Movement of people
 - Partial acceptance of common currency

EU External Trade Policy Objectives

- ❖ EU external trade policy objective has been to extend its internal success to the multilateral system – (consistent with the ruling paradigm)
- ❖ *Singapore Issues*
 - Facilitation of investment
 - Oversight of competition
 - Opening up of government procurement
 - Trade facilitation

Singapore Issue - Investment

- ❖ Proposed “International Agreement on Investment”
- ❖ Incorporate the Principle of *National Treatment*
 - Incorporate “entry” and “establishment”
 - After investment rules on regulations, taxation, expropriation
- ❖ EU firms have long complained of capricious treatment of investments by developing country governments
- ❖ EU put investment proposals on the multilateral agenda but developing countries were eventually successful in getting it removed

Singapore Issue - Competition

- ❖ Its strong Competition mechanism is seen by the Commission as a central element in the Single Market's success
- ❖ There is no multilateral architecture to protect EU firms from anti-competitive practices of foreign firms
- ❖ Was included in the ITO
- ❖ With the formation of the WTO the EU saw an opportunity to include provisions on Competition
- ❖ EU got it onto the multilateral agenda but eventually removed at the insistence of developing countries

Singapore Issue – Government Procurement

- ❖ The EU provisions against discrimination in government procurement are seen as a major achievement in aid of liberalization
- ❖ Discrimination in procurement contract processes in developing countries is seen as a major impediment to EU firms
- ❖ EU had the issue put on the multilateral agenda
- ❖ In the end all that was achieved was a Plurilateral Agreement which almost no developing country have joined

Singapore Issue – Trade Facilitation

- ❖ EU's removal of customs checks among Member States allows the unimpeded flow of goods – (the ultimate goal of the ruling paradigm).
- ❖ The EU is realistic that this cannot be achieved multilaterally but streamlining the customs systems of developing countries could go a long way to improving trade outcomes
- ❖ EU fostered trade facilitation at the WTO
- ❖ After almost a decade of negotiation at the WTO the *Agreement on Trade Facilitation* was reached at the 2013 WTO Ministerial in Bali
- ❖ EU is heavily involved in designing its implementation

Singapore Issues

- ❖ The *Singapore Issues* remain a central focus of EU external trade policy
- ❖ This focus is entirely consistent with the ruling international trade paradigm to: Facilitate trade as an “Engine of Economic Growth”

Negotiate Preferential Trade Agreements

- ❖ The EU has also had a concerted effort to negotiate preferential trade agreements with other countries or groups of countries
- ❖ Consistent with the ruling trade paradigm
 - Association Agreements
 - With Canada (CETA), with Mexico, with Singapore, etc.
 - With the US (T-TIP), with Mercosur, with India, etc.

Alternatives to the Ruling Paradigm are Garnering More Attention in EU External Trade Policy

- ❖ Trade policy should assist in achieving broader policy goals
- ❖ Trade policy should be used to sanction other countries (to provide an incentive to alter “unacceptable” behaviour)

Alternatives to the Ruling Paradigm: Trade policy should assist in achieving broader policy goals

- ❖ The most obvious of these is to mitigate the rate of societal change perceived as arising from globalization
 - To prevent groups in society being “left behind” when the ruling paradigm is being followed
 - ✓ Motivation of those who voted for Brexit
 - ✓ Motivation of those who voted for Donald Trump
- ❖ New parties interested in the harnessing of trade
 - Environmentalists
 - Consumers

Alternatives to the Ruling Paradigm: Trade policy should assist in achieving broader policy goals

- ❖ Managed globalization was first coined in 1999 as an aspect of EU policy
- ❖ While the Commission follows the ruling paradigm in negotiating preferential agreements:
 - Environmental NGOs have raised serious objections to both the T-TIP and the CETA over investor-state dispute mechanisms and the effect on environmental policy making
 - Consumer groups raised concerns about food safety in T-TIP
 - Influence when “shared competence” is involved
- ❖ Commission’s difficulty in devising GMO policy

Alternatives to the Ruling Paradigm: Trade policy should be used to sanction other countries

- ❖ Groups in civil society that do not have economics at “top of mind” can see trade policy as a way of punishing “unacceptable” behaviour
 - Environmental NGOs proposals for environmental tariffs to punish countries with poor environmental records
 - Import bans on seal products
 - Preferential access tied to membership in Biosafety protocol, CITES, ILO Conventions
- ❖ Influence on policy on the rise – particularly in the Parliament

Conclusions

- ❖ EU is the embodiment of the ruling trade paradigm and its trade policy still reflects the policy role for trade as being to “Facilitate trade as an “Engine of Economic Growth”
- ❖ For the Commission to act otherwise would be to deny the underlying rationale for the existence of the European Union
- ❖ Progress in pushing the agenda externally is slow as protectionists are tenacious and strident in their opposition
- ❖ Alternative roles for trade are, however, increasingly embraced by other stakeholders in civil society, non-trade ministries and Member State’s governments
 - Trade policy should assist in achieving broader policy goals
 - Trade policy should be used to sanction other countries
- ❖ Is there a future for the EU outside the ruling paradigm?

Thank You