

EUROPE IN THE WORLD: TRADE AND GLOBALISATION

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Europe is the source of modern globalisation. The northwestern corner of Europe started to outstrip the rest of the world, in terms of wealth, technology and political sophistication, as far back as the twelfth century. The British Empire provided the political framework for the first modern, market-based international economic order – what Niall Ferguson calls nineteenth-century “Anglobalisation”. Europe declined and retreated within its borders after World War One. After 1945, the USA led and sustained the second liberal international economic order – what is 20th and 21st-century globalisation.

Where is Europe’s place in the world today? Euroenthusiasts advocate a “postmodern” EU foreign policy with “soft-power” instruments such as international organisations, international law and foreign aid. On the economic front, they point to Europe’s Single Market, open to global flows of trade, capital and even people.

The reality is more mixed. A “European” foreign policy is a bit of a joke. Internal divisions are rife; soft power often seems like hot air; and it remains a poor second to indispensable US leadership in the world (however mismanaged it may be at the moment). But Europe’s global economic influence is no joke: it remains a leading force.

Trade policy is the one area where the EU acts as one. Competence is centralised in the Commission, which acts within a mandate set by the Council of Ministers. Trade policy *is* the EU’s foreign policy. At the same time, it is intimately bound up with internal EU policy concerning the Single Market. It is at this junction of the internal market and trade policy that the EU exercises decisive influence in world affairs.

Europe in the world economy: facts and figures

The enlarged EU is the most globalised region on the planet. It is the world's biggest trading region, accounting for about 18 per cent of world trade in merchandise goods and 25 per cent of world trade in commercial services. It is also the leading region for foreign direct investment (FDI), accounting for almost half of the stocks and flows of inward and outward FDI.

Such openness does however mask significant pockets of protection. EU average agricultural protection – a combination of high tariffs and price-distorting subsidies – is a whopping 55 per cent. Manufacturing is much more open, but with high protection in inefficient sectors like textiles, clothing, footwear and leather goods. The EU has the most onerous technical and food-safety standards in the world. Much of this is tantamount to backdoor “standards protectionism”. “Trade remedies”, notably anti-dumping duties, are prone to systematic abuse. EU services markets have much higher levels of protection than trade in goods, with an average tariff-equivalent of roughly 15-25 per cent (compared with 10 per cent in goods). In some services sectors, protection is well above 50 per cent. Most of these tariff and non-tariff barriers bear down particularly hard on developing-country exports made with cheap labour.

EU trade policy: the liberal challenge

The EU could and should have a much more liberal trade policy, particularly in relation to the developing world. This requires action on several tracks.

Firstly, in the World Trade Organisation (WTO), the EU is a major stumbling block in agriculture (though not the only one). In the Doha round, it has pledged to phase out export subsidies and make big cuts in trade-distorting domestic subsidies. But tariffs are by far the biggest barrier to its markets. The EU has to go much further in reducing its high tariffs – and do so relatively cleanly, so that “sensitive products” such as meat, cereals and dairy are not excluded. Peak tariffs (of over 10 per cent) on industrial goods should be cut. The EU should offer to open its inefficient public-sector services such as health care and education, and allow entry to more foreign workers from developing

countries on short-term contracts. Finally, it should undertake a major overhaul of antidumping regulations (ideally replacing them with competition rules), and make technical and food-safety standards less burdensome and more transparent. The latter are essentially autonomous (or unilateral) measures, but they can be locked in through stronger WTO rules.

Secondly, the EU is active with bilateral and regional free trade agreements (FTAs). It has several on the books; negotiations are ongoing with Mercosur and the ACP countries; there are planned negotiations with Asian countries; and Russia and Ukraine are also in view. The EU needs to exercise ambition and caution in equal measure with FTAs. The main problem is that these are discriminatory arrangements that threaten to distort trade and make it subject more to power relations than to fair – i.e. non-discriminatory -- rules. There should be ambition in reciprocally opening markets in goods, services and investment, underpinned by competition-enhancing rules. But caution should rule in other ways. The EU should not export its costly regulations, e.g. on labour standards, environmental standards and intellectual property, to developing countries whose trading advantage lies in low costs. The EU's terribly complex rules of origin should also be simplified and harmonised so that they do not further gum up trade. Finally, extraneous political objectives, such as human rights and democracy, should be kept out of trade negotiations.

The Single Market and trade policy: two sides of the same coin

More important than what the EU does in trade negotiations is what it does on its own and at home. This is very much about the further liberalisation and integration of the internal market. A reform agenda should include: fundamental reform of the Common Agricultural Policy; simplifying technical standards on industrial goods; opening services markets, including public-sector activities and the utilities; countering attempts to block takeovers of “national champions”; and deregulating rigid labour markets. All these measures would open Europe to more international competition. This would benefit

developing countries, in addition to European consumers and efficient European producers.

The internal market and external trade policy are joined at the hip. Historically, European economic integration has progressed when the EU has liberalised externally; and it has slowed down when the EU has gone into protectionist mode. A Europe open to the world is a “big Europe” open within, with freer markets, competition-supporting regulation and lighter government. A protectionist Europe is a “small Europe” of Big Government, creeping, centralised regulation and throttled domestic markets.

Liberalisation of the internal market and more liberal trade policy: this combination should be *the* EU priority. A common foreign policy, Corporate Social Responsibility initiatives and foreign aid (for which the EU has a deserved reputation for corruption and gross waste) are trivial and misguided in comparison. The political challenge is to identify pro-market reform priorities, assemble reform coalitions, make persuasive arguments based on evidence and not just opinion, and counter the opposition – not least public-sector vested interests and anti-market NGOs .

SUGGESTION BOX

A European Transparency Board

What is missing in EU regulation – not least in trade policy – is transparency. And what is sorely needed is systematic, facts-based assessments of the impact -- the costs and benefits -- of this-or-that set of regulations. This is vital for better public awareness, understanding and discussion of complex issues. Hence there is a case for an independent EU-wide “transparency board”, with statutory powers to investigate EU regulation, particularly at the interface of external economic policies and the internal market.

Assessments should be made public and feed into wider public discussion. A model already exists: the Australian Productivity Commission (formerly the Tariff Board).

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