

European Enlargement and External Trade: Towards a Protectionist Regional Bloc?

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The next enlargement of the European Union with ten Candidate Countries may bring a major transformation of the Union¹. In this essay, we look at the consequences of the accession of these countries on EU trade policy. More specifically, we assess whether this enlargement could lead the Union to behave more like a protectionist regional bloc, as some fear. This political-science analysis² deals with this question through two interrelated issues.

Firstly, the possible influence on the European position in the multilateral trading system is looked at. Here the question of *trade diversion* and conformity with GATT Article XXIV³ is inevitably raised, as the WTO is concerned about the impact of regional trade agreements on the multilateral trading system. After each previous enlargement, negotiations for compensation agreements with WTO members affected by enlargement have taken place⁴. Such being the case, claims for compensation under Article XXIV could be expected after the next enlargement. The US has already announced a WTO negotiation with the EU over the trade effects of enlargement, once enlargement actually takes place (Wayne 2002). However, we would put the danger of trade diversion and subsequent compensation claims into perspective.

- Unlike previous enlargements, many of the conditions for liberal trade in *industrial products* will already be established prior to accession. By 2002 one can speak of a pan-European framework for commercial interaction (Kaminski 2000; Brenton 1999). As trade diversion costs

are likely to be low, problems of trade compensation under WTO rules are not expected (Rollo 1995; Johnson and Rollo 2001).

- Trade diversion in *agricultural* trade may be more difficult to avoid, as the general level of protection in eastern Europe is lower than the current CET. Important agricultural countries such as Hungary and Poland are less protectionist than the EU in external agricultural protection. So the Union is likely to raise border protection in new member countries, causing trade diversion. Hungary was until recently a member of the liberal Cairns group of agricultural exporters, but had to withdraw in '99 at the demand of the EU (Tovias 2001). Estonia has already had to abandon its very liberal trade regime raising agricultural tariffs to conform to EU requirements, so the EU will have to compensate Estonia's trading partners (Kaminski 2000). However, also regarding agriculture, Swinnen (2002) states that accession is less likely to create a conflict with WTO commitments than initially feared.
- CCs will probably be less enthusiastic about multilateral *services* liberalization. However, as this is the EU's major offensive interest in the WTO and there is a consensus among current member states about this issue, it seems very unlikely that CCs will be able to exercise much influence here (van den Hoven 2002).

In addition, the EU and the CCs have already anticipated demands for compensation. As a CC representative made clear, the main concern of CCs during their negotiations with the WTO was to avoid opening their markets more than the EU. Furthermore, it was suggested that negotiations on such claims are more a question of a political struggle for power than of economic analysis. Threats about compensations may form a bargaining tool of trading partners in other issues, such as the Doha Development Agenda or transatlantic trade disputes (steel, gmo's etc.). In this context it is interesting to know that the vagueness of GATT Article XXIV

(FTAs should cover ‘substantially all trade’ and must not ‘on the whole’ be more restrictive than previously) makes broad interpretations possible (Frandsen, Jensen and Vanzetti 2000).

It is clear that most CCs (with the exception of Estonia and the Czech Republic) have preferred bilateral and regional to multilateral foreign trade liberalisation. Falling tariff rates on industrial imports from preferential partners have not spilled over to MFN policy. (Kaminski 2000) But on the other hand, all acceding countries became WTO members, subjected to the rules of the multilateral trading system. Both their discourse⁵ and their policy indicate that regionalism and multilateralism are probably complementary, although the easier option of regional integration has been given priority. This seems to be a reflection of the traditional European balance between regionalism and multilateralism.

Moreover, the increased economic size of the Union will probably increase internal and external pressures for a worldwide commitment of the EU in the economic field. The fact that the Union has intensified its economic relations with Russia and the FSU countries does not preclude a more global role of the EU, as recent initiatives in Latin America (Mexico, Chile, Mercosur) and the Everything but Arms-initiative indicate. The Union also seems to be the main supporter of a new WTO round. Contrary to the declining power of the US, the EU’s interests are increasingly promoted by multilateral trade liberalization. So developing⁶ and developed countries’ fears for ‘attention diversion’ (Bergsten 1997) are probably premature.

Secondly, the question presents itself whether enlargement will shift the balance to a more or less liberal (free-trade-oriented) Europe. Already from the start of the EC, a simplifying distinction between a group liberal-trading northerners (led by Germany and the Netherlands) and a more protectionist southern group (led by France and Italy) can be made. (Johnson and Rollo 2001) Not surprisingly, each enlargement has shifted the balance to a more liberal (with

the UK, Scandinavian countries and Austria) or a more protectionist (with the Mediterranean members) EU trade policy (Grabbe and Hughes 1998). What is the position of the CCs on the protectionist – liberal spectrum?

Since the beginning of the 1990s, the CCs' trade policies have undergone a major transformation. In spite of differences between them and temporary setbacks, they all moved swiftly from an institutional design of central planning and a strong bias against foreign trade, to a market-based trade regime in most industrial and agricultural goods. Trade flows were largely redirected from the former Soviet Union towards the EU⁷. Apart from “systemic change” (the end of communism), the “EU factor” became the most powerful liberalising force. After the '89 revolutions the Union quickly extended GSP status to its eastern neighbours and between '91 and '95 it concluded Association Agreements with all CEECs. The “core” of these ‘Europe Agreements’ consisted of trade provisions, leading to a standstill of existing tariff levels and the gradual reduction of tariffs and quantitative restrictions on trade (Hare 2001). Moreover, contrary to what one might expect considering previous trade liberalisation in developed countries, the rapid fall in tariffs was not followed by an increase in non-tariff barriers (Kaminski 1999). Most CCs have much lower trade barriers than did Spain and Portugal at the time of their entry into the EU and they are certainly much less protectionist than Austria and Finland were on agriculture until 1995. (Johnson and Rollo 2001) All respondents to our questionnaire indicated that trade in goods and services should be further liberalised within the WTO.

Summarizing, it should be emphasized that “a surprisingly liberal trade regime is now in place in the Central and Eastern European countries seeking EU accession” (Hare 2001). The EBRD and Michalopoulos (1999) give the eight acceding CEECs the highest ranking regarding liberalisation of their trade system⁸.

However, despite the CC's free trade inclination, a few remarks on potential protectionist tendencies should be noticed. First of all, new members might take advantage of existing EU instruments for anti-dumping to protect their more vulnerable industrial sectors (such as chemicals, iron and steel). There is a precedent here: the accession of Austria, Sweden and Finland instigated some anti-dumping measures that did not apply in these countries previously. (Frandsen, Jensen and Vanzetti 2000) Secondly, the expected boost to agriculture could shift the relatively liberal countries towards the agricultural protectionist camp within the EU. (Johnson and Rollo 2001; van de Hoven 2002)

More generally, one could question whether the acceding countries will stay on the liberal track once they have joined the Union. While the ongoing liberalization of foreign trade during the 1990s should to a large extent be ascribed to the 'EU factor' (see above), most countries (with the exception of Estonia: Purju 1996) are characterized by the absence of pro-free trade lobbies and domestic pro-protection sentiments prevail. Ill-designed institutional foundations, bureaucratic temptation to micromanage tariffs and an apparent lack of political support for free trade among elite and populace at large (Kaminski 2000) might eventually shift the balance to a rather protectionist policy within the EU. Lithuania's former Ambassador to the EU confirms that his country's "relatively liberal" trade regime has come under pressure from "influential interest groups" (Cicinskas, Cornelius and Treigiene 1996), and Latvian civil servants describe the protective inclination of the bureaucracy and the weakness of consumer organizations (Shteinbuka and Cirule 1996).

Although these comments should be borne in mind, we consider a volte-face away from the CC's current liberal trade policy very unlikely. After all, the ongoing process of

Europeanization will probably continue to play an important ‘socializing’ role in the policy new member states⁹.

Finally, apart from the new members’ preferences in trade policy, their formal and actual influence will probably be relatively small. How much will their decision-making powers in European trade policy amount to?

Even if all acceding states took a protectionist stance, there is no arithmetical prospect that they could link with the existing more protectionist group to achieve the necessary votes that will be needed to bring about a standing protectionist majority (Johnson and Rollo 2001; Tovias 2001). Hanson observed that, after the completion of the single market, the institutional setting of EU trade policy-making advances external liberalization. So also after enlargement, a minority of free-trade-oriented member states can always block protectionist measures and “erecting new trade barriers of any kind would be difficult without great consensus among member states” (Hanson 1998). Of course this argument does not apply for trade issues (such as audio-visual services as well as education, health care and public services) where member states still have a veto power according to the Nice Treaty. However, these issues may be less problematic than sometimes suggested (Rollo and Holmes)¹⁰. Since 1995 Central and Eastern European Countries have supported the EU position in WTO negotiations (van den Hoven 2002). During all EU-CC accession negotiations Chapter 26 on external relations has been closed without insurmountable difficulties.

Claims that enlargement constitutes a kind of non-tariff barrier because EU trade policy decision-making would become even more complicated (Senti 2002) are not necessarily true. If the number of participants at the decision-making process increases, the Commission can more easily appoint itself as a mediator between the member states – even on issues that strictly

speaking do not belong to its competences (Kerremans 1996). More generally, the importance of the number of actors for providing a collective good could be questioned. Strömviik (2000) shows that, although there may be a ‘pure numbers effect’ and some kind of ‘threshold logic’, there are other countervailing forces as well.

In addition to this analysis on the ‘systemic’ level of decision-making (Peterson and Bomberg 1999), during the first years of membership the CCs actual influence may be diminished because of their limited integration in the ‘sub-systemic’ policy networks (Peterson and Jones 1999). The Europe Agreements provide for multilateral dialogue and ‘structured relationship’ to bring the CCs closer to EU institutions and the process of decision-making. Regular informal (de)briefings on trade policy are organised by DG Trade on the level of Ambassadors or senior diplomats. Moreover, ministerial conferences with the EU and the CCs on WTO and Trade issues have been organised yearly since November 1999¹¹.

But it remains to be seen whether CCs are ready to participate fully in the policy-making and operational activities of the article 133 Committee, including the informal exchanges that surround its formal work.¹² Peterson and Jones are also rather pessimistic about the integration of new member states at this level, as they lack technocratic expertise, access to resources (such as information, funding and legitimacy) and coalition-building skills. “If the most recent enlargement is any guide, we should expect officials and lobbyists from eastern applicant states to remain outgunned at the sub-systemic level long after accession. In particular, the time lag between accession and recruitment of eastern nationals to the Commission means they will remain under-represented at the centre of EU policy networks until well into the twenty-first century. (Peterson and Jones 1999)” One official from a CC confirmed that they have scarcely been involved with the informal networks of EU decision-making¹³.

From this short overview of the ‘multilateralism versus regionalism’ and the ‘liberalism versus protectionism’ debates, it remains an open question whether eastern enlargement will entail a ‘Fortress Europe’. However, we are inclined to conclude that, notwithstanding the critical remarks we made, fears for a more protectionist and inward-looking Europe should not be exaggerated. During the past decade CEECs have shown an unprecedented move towards trade liberalisation and integration in the world trading system. To the extent that Europe might become a protectionist regional bloc, this will be attributable to other factors (e.g. economic recession; US protectionism; ‘anti- globalism’ and growing politicization of trade policy etc.) than to EU enlargement.

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¹ We use the term (European) Union (EU), also if strictly speaking it concerns the European Community. The term Candidate Country (CC) refers to the ten countries that are most probably acceding to the EU in 2004 (Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Cyprus and Malta), excluding Bulgaria, Romania and Turkey.

² The essay is based on literature and a few questionnaires and interviews with representatives of the CCs to the EU (April-May 2002).

³ GATT Article XXIV (5) 5 states that duties and other regulations of commerce “shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area”; The GATS treaty (article V) has less strict conditions.

⁴ For example, the enlargement with Spain in 1986 was followed by a trade row between the EU and the United States over the amount of compensation. After threats of retaliation and counter retaliation, both sides eventually compromised. The 1995 enlargement (with Austria, Sweden and Finland) also led to compensation negotiations with the United States, Canada, Australia, and other trading partners that claimed trade loss. In December '95 the EU finally offered compensation acceptable to the other parties. (Ginsberg 1998)

⁵ E.g. Latvia's former Ambassador to the EU talks about a “multi-route approach of bilateral, regional and global integration”. (Cicinskas, Cornelius and Treigiene 1996)

⁶ Here we will not elaborate on the consequences of enlargement for developing countries (among which the ACP). Recent initiatives (Doha Development Round, Monterrey, the new GSP, Cotonou and the ongoing EPA negotiations, Everything but Arms) indicate, however, that there is not simply a ‘zero-sum game’ between the EU relations with Eastern Europe and those with the South.

⁷ However, in '94 a free trade area among Central and Eastern European countries (CEFTA) and a trilateral free trade agreement among the Baltic countries entered into force.

⁸ Estonia, Latvia and the Czech Republic have the most liberal trade regimes. The two CEECs that are not acceding in 2004, Bulgaria and Romania, are considered as the least liberal countries (Tsoukalis 1997).

⁹ For an application of this argument on the effects of enlargement on European Common Foreign and Security Policy, see: Sjurssen 1998; Stromvik 2000.

¹⁰ It should also be noted that in practice, as a consequence of several mechanisms (such as its information advantage, the impact of globalisation etc.) the Commission plays a more important role in trade policy than formal provisions suggest (Kerremans 1996).

¹¹ The latest ministerial meeting took place in Malta from (31 May – 1 June 2002).

¹² “The formal debates in the Committee are shadowed by a constant process of bilateral discussion, *ad hoc* alliances between member states, telephone and e-mail exchanges, and visits to capitals.” (Johnson and Rollo 2001b).

¹³ They have only been involved in a few working groups and advisory committees of the Commission, but not those involving financial and political issues. They have not been allowed at working groups or committees under the European Parliament or the Council of Ministers. Of course their participation at this sub-systemic level may be enhanced after signing the Act of Accession.