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THE LIMITS OF INTERREGIONALISM:

THE EU AND NORTH AMERICA

Vinod K. Aggarwal
Professor and Director
Berkeley APEC Study Center
802 Barrows Hall #1970
University of California
Berkeley, CA 94720-1970
USA
Email: vinod@socrates.berkeley.edu
Tel: 510-642-2817

and

Edward A. Fogarty
Doctoral Candidate
Department of Political Science
University of California
Berkeley, CA 94720-1950
USA
efogarty@berkeley.edu

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1. Introduction

The European Union is the patron saint of interregionalism in international economic relations. It has pursued interregional strategies in one form or another toward regional groupings in South America, East Asia, the Southern Mediterranean, Eastern Europe, and a variety of least-developed countries. However, the case of EU relations with North America (the United States, Canada, and Mexico) shows the limits of this doctrine. During the 1990s, the foundations for a transatlantic interregional relationship emerged. The EU institutionalized cooperative economic relations with the United States and Canada within separate but similar bilateral frameworks, and completed a free trade agreement (FTA) with Mexico. During the same period, the creation of the North American Free Trade Agreement (NAFTA) established a free trade zone among the more than 400 million inhabitants of North America. These developments potentially opened the door to the grandest of interregional agreements between the world's two largest regional blocs.

Yet even as the EU pursued interregional strategies toward many other ill-defined and weakly institutionalized 'regions,' it avoided an interregional approach toward its most important commercial partner. Simply put, there is no discernable EU-North America relationship. But this state of affairs is precisely what makes this negative case important to explore; it is just as essential to account for why interregionalism does *not* occur as it is to understand why it does.

In this article, we view the past practice and future prospects of EU interregionalism toward North America in their commercial relations through an analytical lens we have developed elsewhere (Aggarwal and Fogarty 2004). Notably, we do not address interregionalism as a process or outcome, as Söderbaum and van

Langenhove do in the introduction to this special issue—though we certainly acknowledge the utility of doing so.[1] Rather, we analyze interregionalism as a policy strategy—the choice to pursue (or not to pursue, in the EU-North America case) formalized intergovernmental relations across distinct regions. Hence we focus on the question of why European Union policymakers chose to pursue a policy to deal with each of the three countries of North America bilaterally, without seriously considering an interregional relationship with NAFTA.

As with any study of foreign economic policy, a variety of factors may be relevant in explaining the absence of EU interregionalism in this case. Accordingly, we consider three "lenses" through which to view EU commercial policy toward North America: interest group preferences and behaviour, security competition, and transnational identity formation. These lenses are neither exhaustive nor mutually exclusive, but are useful tools for separating out what we believe to be the key dynamics relevant to this case. Notably, these lenses involve political, rather than economic, factors. Although there may be a market logic to these strategies, we start from the assumption that political factors drive policymakers' choice of interregionalism as opposed to multilateralism, bilateralism, and other trade strategies.[2]

In section three of this article, we briefly introduce each analytical lens in general terms, and then apply that lens to EU commercial policy toward North America. But first we briefly sketch EU commercial relations with each of the countries of North America and NAFTA collectively over the past fifteen years to provide some empirical background for the ensuing analysis of EU commercial policy and the absence of interregionalism.

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[1] In our earlier work, we analyzed interregionalism both as a policy strategy and a type of relationship.

II. Describing EU commercial relations with North America[3]

Despite the creation of NAFTA in 1994, the EU has studiously maintained separate bilateral tracks for managing its commercial relations with the three countries of North America. Thus to assess the EU's trade ties to NAFTA as a whole, we first briefly consider those with each North American country individually.

Europe and the United States

The Europe-United States commercial relationship remains the cornerstone of the international economy. The EU and United States represent the world's two largest markets, and each absorbs roughly 20 percent of the other's exports, with total trade in 2002 worth roughly $650 billion. The relationship is similarly intimate with respect to investment: in 2001, European firms accounted for over 60 percent of FDI stock in the United States (roughly $870 billion in total), while American firms owned a similar proportion of investment stock (approximately $630 billion in total) in EU member countries (European Commission 2003). Much of transatlantic exchange is intrafirm, underscoring the fact that this "trade" is very much intertwined with investment and merger and acquisition activities.

During the 1990s, in the wake of the cold war and in a period of ascendant regionalism (including in both Europe and North America), the United States and Europe struggled to recast their relations in the absence of the Soviet threat. Many analysts predicted the future of international competition to be economic rather than political-security, and policymakers in the United States and Europe sought ways to

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See Aggarwal and Fogarty 2004: 4-6.

[2] See Grossman and Helpman 1996 regarding the economic rationality of interregionalism.

[3] This section draws on Fogarty 2004.

retain their role as partners even as they competed commercially. Accordingly, the United States and Europe announced a series of agreements during the 1990s that attempted to institutionalize economic cooperation, with varying degrees of significance and success.

In 1990, the two sides announced a Transatlantic Declaration that was intended to deepen and institutionalize commercial relations. However, this declaration was more symbolic than substantive. Its main functional purpose was to establish a framework for regular consultation, specifically a regimen of biannual summits at which U.S. and European ministers and heads of state would meet to discuss important issues on the transatlantic and world agendas.

The EU and United States unveiled a New Transatlantic Agenda (NTA) in December 1995 to provide some of the substance that the Transatlantic Declaration lacked. The NTA sought to broaden the scope of EU-U.S. cooperation both on trade and investment matters as well as on transnational issues such as terrorism and the environment. On the economic front, the NTA spawned two further acronyms: the New Transatlantic Marketplace (NTM) and the Transatlantic Business Dialogue (TABD). The NTM was to be a framework for dismantling most remaining trade and investment barriers between the two, and a building block toward a possible Transatlantic Free Trade Area. But the NTM's broad agenda proved difficult to translate into specific commitments, and the NTM ultimately gave way to a somewhat less ambitious Transatlantic Economic Partnership (TEP) in 1998. The TEP focused on the mundane but important matters of harmonizing standards and cooperating on nontariff barriers more generally.

The TABD provided a forum for European and U.S. CEOs and trade officials to generate their own agenda and momentum for closer commercial ties across the

Atlantic. Indeed, the recommendations of those working within the TABD were a major factor in the push to harmonize regulations and standards. A direct result was the set of six Mutual Recognition Agreements (MRAs) signed by the United States and the EU in June 1997, which streamlined testing and approval procedures in several sectors.

Despite this alphabet soup of frameworks, no comprehensive meeting-of-the-minds has been achieved by political leaders on the future shape of transatlantic economic relations, and plenty of disagreement remains between the two on their visions for the broader international economy. Indeed, the initial failure to launch a new round of multilateral trade negotiations in Seattle in 1999 was more a result of the inability of the United States and Europe to cooperate than any protest activities on the streets (Fogarty 2005). Subsequent trade spats have clogged both the newspaper headlines and WTO arbitration mechanisms, though nearly all have ultimately ended in compromise. More recent ructions resulting from disagreements over Iraq and multilateral cooperation more generally have clouded perceptions of the West as both an emotive and practical entity, making ideas of formal economic integration—which would be as much a political as an economic process—that much more distant.

The European Union and Canada

The recent trajectory of EU-Canada commercial relations has broadly followed that of EU-U.S. relations. This fact comes as little surprise: given the broad political and economic similarities (in nature, if not size) between North America's two more economically advanced countries, the EU effectively put institutional developments in these two relationships on parallel tracks. Canada—always eager to step out of the shadow of its overweening neighbor to the south, and dependent on the EU as its second largest trading partner—has not always championed this parallelism, but has yet to prevail on the EU to take seriously any new approach to EU-Canadian relations.

During the 1990s, the EU established a set of commercial fora with Canada nearly identical to those it created with the United States. A 1990 joint declaration inaugurated biannual Europe-Canada summit meetings, which ultimately led to the agreements of the 1996 EU-Canada Action Plan to erect a framework for bilateral relations and the 1998 EU-Canada Trade Initiative (ECTI) to enhance bilateral cooperation on multilateral issues, as well as to the Canada-Europe Roundtable (CERT), a business-led forum similar to the TABD.[4] The EU and Canada also negotiated more specific agreements on customs cooperation in 1997, MRAs in 1998, and competition law enforcement in 1999.

This broad parallel to the EU-U.S. approach occurred despite Ottowa's various attempts to pursue a separate path in EU-Canadian relations. While Canada and the United States share many structural similarities as well as common positions in several quarrels with the Europeans—notably on genetically-modified food and hormone-treated beef—Canada has its own interests to look after in its ties to Europe. While commercial relations are mostly harmonious, the EU and Canada have had several ugly confrontations over fishing rights off Canada's eastern coast. On the positive side, Canada has sought to enhance its commercial relationship with the EU to diversify its foreign trade portfolio, which at present is massively dependent on the U.S. market—fully 86 percent of Canadian exports go to the United States.[5]

Canada has occasionally sought to embed EU-Canadian relations in a broader EU-North America context, styling itself a facilitating middleman in a putative interregional relationship between the EU and NAFTA. The government of Jean Chretien, the long-serving former prime minister of Canada, sought repeatedly in the mid-to-late 1990s to convince European leaders of the merits of a more interregional approach. In 1998, Canada's minister of trade, Sergio Marchi, envisioned a time "when Europe looks to North America [and] sees a NAFTA community, not just three different neighborhoods" (Council of Europe 2000).

Yet Canada's entreaties have been largely ignored by both Commission and European national officials.[6] However, the British government did give support to a specific EU-NAFTA track: in a February 2001 speech to the Canadian parliament, British Prime Minister Tony Blair declared the need for a "political declaration of intent" between the EU and NAFTA. It is not clear, however, whether Blair's statement was intended to give impetus to an interregional EU-NAFTA track, to merge the EU-North American agendas in the run-up to WTO negotiations in Doha later that year, or simply to humor the Canadian government. Either way, EU policymakers have shown little inclination to make Canada the key to their North American strategy.

The European Union and Mexico

In the years up to the 1990s, Mexico was peripheral to European commercial strategy, as it accounted for less than one percent of Europe's international trade. However, as

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[4] In NTA negotiations, the U.S. administration specifically requested the exclusion of Canadian business leaders from the TABD.

[5] "Canada seeks deal with EU," *The Gazette*, 17 April 2001.

[6] In some circles in the United Kingdom, however, the welcome idea of closer ties with a North American community has converged with anti-EU sentiments to generate a different angle on Canadian ideas of closer partnership. A warm reception has been given to a few powerful North American voices (notably Conrad Black, the Canadian-born owner of the London *Daily Telegraph*, and former U.S. senator Phil Gramm) calling for the United Kingdom to leave the European Union and join NAFTA. While this heterodox view has never made it into the mainstream of political discourse in the United Kingdom, then EU Trade Commissioner Pascal Lamy felt it necessary in a mid-2000 speech to acknowledge and then to criticize this viewpoint (Lamy 2000).

the EU commercial agenda began to place greater emphasis on increasing trade with less-developed countries, and as the United States moved toward a free-trade agreement with Mexico, European perceptions began to change. The completion of NAFTA posed an immediate problem for the European Union: it weakened Europe's position in a liberalizing and potentially dynamic Mexico, Latin America's second largest market and home to nearly 100 million consumers. These fears were warranted: from a more than 9 percent share of Mexican trade in 1993, Europe saw its share drop to 6 percent in 2000. Meanwhile, the U.S. totals jumped 5 percent (to a more than 80 percent share) over the same period (European Commission 2000). While these trends were clearly in place before NAFTA, it promised to worsen the EU's terms of trade with Mexico, and thus further marginalize European exporters in that market.

The EU's response was to initiate, and in 1999 to complete, a bilateral free trade area with Mexico. The free trade agreement, known officially as the "Economic Partnership, Political Coordination and Cooperation Agreement," or more grandiloquently as the "Global Agreement," has been referred to by Pascal Lamy as "in terms of coverage the most ambitious free trade agreement ever negotiated by the EU" (European Commission 2000). Specifically, the Global Agreement set hard targets for complete liberalization of trade in industrial goods (the EU by 1 January 2003; Mexico by 1 January 2007), and broad liberalization of agriculture (by 2010, 80 percent of EU imports and 42 percent of Mexican imports) and fisheries (by 2010, 100 percent of EU imports and 89 percent of Mexican imports). It also granted Mexico preferential treatment in the services sector, while further liberalizing government procurement, investment, competition, and intellectual property policies. Institutionally, it established a Joint Council, which meets at the ministerial level to uphold the Global Agreement’s “pillars” of political dialogue, trade liberalization, and general cooperation, and which maintains a dispute settlement mechanism should disagreements arise.

Like the EU, which sought a free trade area with Mexico in large part to redress the deterioration of its terms of trade after the creation of NAFTA, Mexico’s broad motivations for pursuing a deal with Europe are not difficult to divine. Like Canada, during the 1980s and (especially) 1990s Mexico saw its trade dependence on the United States grow to staggering levels: in 1982, Mexico sent 53 percent of its total exports north of the border; by 1999 that number had ballooned to 90 percent (Gower 2000). The Mexican government’s liberalization policies over this period had increased the proportion of the economy dependent on international trade, thereby intensifying Mexico’s vulnerability to economic shocks in the United States. Thus it had every reason to seek to diversify its trade relationships—and particularly to embrace Europe, a market very similar in size and purchasing power to that of the United States. Mexico’s desire to reduce its dependency on its northern neighbor became more salient with the U.S. administration’s post-9/11 dismissal of Mexican initiatives to deepen NAFTA through additional agreements on aid and immigration. Europe in 1982 absorbed over 20 percent of Mexican exports—a proportion that had fallen to just 3.1 percent in 1999 (Gower 2000)—so perhaps a free-trade deal that evened out the playing field vis-à-vis NAFTA would reestablish the vitality of this trade relationship, something both the EU and Mexico were keen to encourage.

The European Union and NAFTA

Describing the relationship between the EU and NAFTA is not a straightforward task, for the simple reason that it does not officially exist. However, it is possible to consider some aspects of NAFTA relevant to a prospective interregional relationship.

The main hindrance to EU-North American commerce—and the issue addressed in agreements like the MRAs—is nontariff barriers such as subsidies and product standards. The primacy that technical issues such as NTBs now take in EU-North American trade relations underscores how deeply integrated the two side's economies already are. The EU accounts for 35 percent of "NAFTA's" exports (excluding intra-North American trade) and 25 percent of its imports, and thus is NAFTA's most important trading partner. Together, the EU and NAFTA account for 35 percent of world exports and over 40 percent of world imports, making the transatlantic link not only central to each side's economies, but to the international economy as a whole (DTI 2001). What happens in transatlantic economic relations—whether in official trade agreements or disputes, as well as in day-to-day commercial transactions—has repercussions far beyond the arena in which it is governed. Whether and how an EU-NAFTA relationship were to develop would affect every other trade regime in the world, from bilateral and regional groupings to the WTO itself.

The future of EU-North American interregionalism may be broadly constrained by two aspects of NAFTA's organizational form: its institutionalization and its asymmetry. While NAFTA is highly institutionalized—featuring a clear set of rules governing trade and investment, provisions to ensure the integrity of labor and environmental standards, and a dispute settlement mechanism for managing conflict—it is minimally integrationist. Born of the convergence of pragmatic self-interest among its members, NAFTA is unlikely to develop into an economic union or customs union in the absence of a major shift in the international political and economic climate—and, more importantly, the U.S. domestic political climate.[7]

The overwhelmingly dominant position of the United States within NAFTA and the consistent skepticism of the U.S. Congress to most types of international economic integration constitute a hard ceiling to NAFTA's evolution. Unlike Europe, where a fairly even distribution of power among the largest member states (and the traditional Franco–German axis) has fostered a political environment of multilateralism and consensus, the hegemony of the United States and deep, asymmetrical dependence of Canada and Mexico on the U.S. economy place the fate of NAFTA essentially in the relationship between the U.S. administration and the Congress. While Congress in the summer of 2002 finally granted the president "trade promotion authority" (eight years after it had elapsed), its hostility to further international trade agreements after the completion of NAFTA and the Uruguay Round of the GATT has slowed U.S. participation in trade negotiations at all levels. Hence Canada's lonely calls for closer EU-NAFTA relations, and Mexico's hopes for greater intra-NAFTA integration, will both go unheeded unless political conditions change dramatically in the United States.

Moreover, NAFTA may ultimately be a transitional arrangement, intended more as a building block toward hemispheric free trade than an end in itself. This state of affairs seems clear from Washington's negotiating tactics, which have involved signing bilateral FTAs with individual South American countries and a minilateral FTA with countries from Central America before the creation of a transregional FTAA, thus strengthening a U.S.-friendly NAFTA model over a more developmentalist version likely preferred by Brazil and some other Latin American

[7] In terms of the editors' definition of types of regionalism in the introduction to this special issue,

countries. This potentially transitional character of NAFTA means that it is unlikely to take on any greater integrationist elements among current and/or future members; negotiations among all the countries of the hemisphere toward anything but a straight free trade area—as opposed to, say, a customs union—would be far too difficult to manage within the proposed time frame (negotiations for an FTAA are supposed to be completed in 2005). In short, while the unresolved shape of NAFTA is in itself not a barrier to an interregional arrangement with the EU—after all, the EU itself is constantly evolving in both membership and structure—North and South American as well as European policymakers' perceptions of its temporary character are. Only if the FTAA were to founder would NAFTA be likely to take on a more permanent status and potentially make separate interregional agreements on its own.[8]

Compared to its relations with other regional groupings around the world, the EU has shown little inclination to engage NAFTA collectively as a means to promote a regionalist model of economic organization.[9] But even if the EU did want to promote greater internal coherence in NAFTA, significant obstacles stand in the way. As Alberta Sbragia has indicated, the EU and NAFTA are not "institutionally compatible entities"—the EU being an economic/monetary union, NAFTA a mere trade/investment union—and thus NAFTA does not have any executive with the external negotiating authority similar to the Commission (Sbragia 2001). While in some cases of interregional relations the EU literally created its counterpart region, NAFTA already exists and will evolve only to the extent that Washington allows;

NAFTA represents "first-generation regionalism"—a hegemon-inspired agreement whose dominant focus is economic (trade and investment).

[8] One open question here is, of course, whether NAFTA would itself "disappear" as a separate entity within an FTAA, or whether it would continue to exist as a nested arrangement under the FTAA. This question will likely remain open until FTAA negotiations progress further.

[9] The EU's overt promotion of "counterpart coherence" in its policies toward Mercosur, the Southern Mediterranean, and East Asia suggests its policymakers have this sort of regionalist diffusion very much in mind. On the concept of counterpart coherence, see Aggarwal and Fogarty 2004, 17-19.

there would be no diffusion of institutional forms from the EU to NAFTA in the way that there might be among regions that aspire to EU-like structures. Even if interregional negotiations were to begin, a transatlantic free trade area would be a discussion between Brussels and Washington. As one British parliamentarian has remarked, “When politicians in Europe talk about ‘transatlantic,’ they really mean the United States of America. This is an extremely important point that Canadians and Mexicans need to appreciate” (Council of Europe 2000, 17-18). While this situation of institutional incompatibility does not rule out progress in EU-NAFTA relations, it does imply that convergence between the two would remain limited.

III. Explaining the absence of EU interregional strategies toward North America

But NAFTA’s limitations do not explain EU strategy; EU-centered factors do. Hence we consider three hypotheses as potential explanations for the absence of an EU interregional strategy toward North America: interest group preferences, great power politics, and EU identity-building processes. We use these standard hypotheses of foreign economic policy preference and strategy formation as lenses through which to view different influences on EU policy in relative isolation from one another; none is a full and accurate description of events in and of itself. Rather, individually and collectively these lenses demonstrate that the absence of an EU interregional strategy toward North America is entirely unsurprising, because few of the conditions necessary for adoption of such a strategy are present.

Interest groups

Our first lens focuses on the role of interest groups. In this “pluralist” view, European Union commercial policy results from the capture of the EU policymaking apparatus by societal interests (i.e., firms, industry associations, environmental groups, etc.) that promote policies reflecting their particular preferences.[10] What concerns us most here, as opposed to the question of group mobilization, is the nature of interest group preferences: which European groups and/or sectors would support an interregional strategy and why?[11]

For European commercial sectors in particular, the question regarding economic relations with North America is: what do we want that we do not already have?[12] Though private European actors have vital interests at stake in North America, does the somewhat unsettled state of official relations serve as a strong enough incentive for them to demand a more formal interregional relationship?

Some European sectors—such as financial services, environmental technologies, and knowledge-based industries—are well-disposed toward free trade in general due to their relative competitiveness in international markets. Many of these same industries are particularly interested in maintaining free access to North American markets because their interests there are intrafirm. The acceleration in mergers and acquisitions (M&A) activity has created a set of multinational enterprises such as DaimlerChrysler and the Virgin Group that form a truly transatlantic constituency and which would have much to lose if any sort of trade war were to break out. Many of these and other free trade-oriented firms have been active in the business-led fora of the TABD and the CERT, and were important players behind the Mutual Recognition Agreements the EU signed with the United States and Canada in

[10] For a discussion of interest group politics in the EU, see Greenwood 1997 and Dupont 2001.
[11] While we discuss interest groups here in terms of sectors, others have analyzed social and economic group preferences in terms of factors—i.e., land, labor, and capital. See Rogowski 1989, Frieden 1991, Frieden and Rogowski 1996, and Hiscox 2001 for discussions of when economic actors split along sectoral and factoral lines.
[12] Because North American standards tend to be similar to European ones, European labor, environmental, and other societal groups interested in international trade generally do not engage in the level of advocacy in the EU's commercial policy toward North America as they do vis-à-vis other, less-developed regions. As such, we focus our analysis here on European commercial sectors.

1998 (Council of Europe 2000, 6). Indeed, the Commission is explicitly solicitous of business group advocacy: Lamy, addressing a meeting of the TABD, asked CEOs to "keep the pressure on us" for continued transatlantic liberalization (Lamy 1999a). If sporadic conflicts with the United States continue, previously unmobilized industries might increase the pressure on the EU to find new ways to settle these issues.

Moreover, NAFTA's rules of origin have generated new incentives for European exporters to seek more direct access to North American markets. Some have suggested that the Global Agreement was just a way for European firms to get better access to the U.S. market, making Mexico "a gateway rather than a destination," a "springboard into the United States" (Gower 2000, 3-4). So why not push for a deal that cuts out the middleman? Would European firms not prefer a straight deal with the United States, or all of NAFTA, given the maze of rules of origin provisions that NAFTA set up to try to clog this gateway? A formal EU-NAFTA economic partnership would certainly be a forum to clear this clog and facilitate European producers' access to all of North America.

Arrayed against this set of pro-free-trade groups and their liberalizing incentives are a number of politically influential sectors that are more skeptical about any moves toward trade liberalization with North America. Some of these sectors—such as textiles, steel, and, of course, agriculture—were mollified in the context of the EU-Mexico free trade agreement because it gave them generous adjustment periods. The date for Europe's removal of trade barriers in the agricultural and fisheries areas (2010) comes well after the expected completion of the Millennium Round of WTO negotiations and the accession of new Central European members into the EU, both of which force the EU to open these sectors to greater international competition anyway. However, certain sectoral sticking points with the United States and Canada—with whom trade is generally free but for which no comprehensive formal agreement exists—would arouse more opposition within Europe. In particular, EU-Canadian sensitivities on fisheries remains raw, and attempts by the Commission to rein in the EU fleet have met stiff opposition, particularly from the Spanish.[13] Meanwhile, the United States and Canada have protested EU restrictions on their exports of hormone-treated beef and other genetically modified food products, and it is hard to see EU farmers—and perhaps consumers as well—accepting compromise on this issue.[14] More generally, recent additions to traditional safeguards—including huge increases in farm supports in the United States and a Franco-German agreement to retain CAP funds even in the face of EU enlargement—seem to make any agreement that actually reduces supports a distant dream.

Other problem sectors might not be quite as intractable. For instance, the EU shares a common position on textiles liberalization with the United States, Canada, and Mexico (along with Turkey, an EU aspirant), with all resisting the demands of India and other developing countries that they make concessions in WTO negotiations beyond those agreed in the Agreement on Textiles and Clothing, which elapses in 2005. Meanwhile, the row over the Bush administration's imposition in 2002 of temporary tariffs on steel imports (from which Canada and Mexico were notably exempted) died down as Washington waived restrictions on an ever-growing proportion of imports. Still, a surge in U.S. protection in several industries sensitive in both North America and Europe is unlikely to put European producers in the mood to accept a rollback in their own protection.

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[13] "Thrashing around," *The Economist*, 1 June 2002.

[14] The *New York Times* identified U.S.-EU disagreements on this issue as based in fundamental philosophical differences regarding the "precautionary principle"—i.e., whether GMOs must be scientifically proven "innocent" before they may be imported or proven "guilty" before their import could be banned. The United States takes the latter position, the EU the former. *The New York Times,* 25 May 2003.

Given the relative parity among European free-trade groups and their more skeptical counterparts, and the relative acceptability (and intractability) of the status quo for all involved, there has not been, and seems to be little prospect of, an interest group-led groundswell for a an interregional strategy toward North America. On balance, an interregional agreement might be a moderate improvement on the status quo, but the limited gains of such an agreement compare unfavorably with the costs of a broad-based business mobilization for such an outcome—especially because individual industries seem more interested in sector-specific agreements than in broader ones in which their goals might get negotiated away.[15] In this environment, the preferences of the skeptics holds sway.

Great power politics

Our second lens focuses on the role of international power politics. From this "realist" perspective, the EU uses its foreign economic policy to promote European political and economic influence and security within the international system. Indeed, as long as Europe remains primarily a "civilian power," commercial policy is its most effective means of exercising international influence.

In this context, a general interregional commercial strategy could extend European influence via a series of "hegemon-centered" commercial agreements with regions that may or may not have significant ties amongst themselves.[16] In most region-to-region relationships, the European Union would be the dominant side, and thus could largely dictate the terms of these institutionalized relationships. However,

[15] On the relative merits of sectoral and more broad-based commercial agreements, see Aggarwal and Ravenhill 2001.
[16] See Bhagwati and Arvind 1996 and Sapir 1998 regarding this 'hub-and-spoke' model of EU-centered commercial agreements.

this condition does not apply in the case of North America, which is home to the EU's main commercial rival, the United States.

The imperatives of power politics do not imply overt security competition with the United States, nor do they necessarily preclude a transatlantic interregionalism. European policymakers understand that trade is not zero-sum, and that a trade war with the United States would leave both worse off. Thus an EU trade strategy toward North America that engaged the United States in an agreement—whether multilateral, interregional, or bilateral—whose terms reflected the interests of Europe more than those of the United States would provide relative gains. However, EU policymakers have few illusions about the likelihood of such a deal, and thus have pursued their relative gains elsewhere—namely by engaging other countries and regions to promote European economic interests at the expense of their American competitors.

Such a strategy seems evident in the European approach to the Americas and East Asia. The EU's interregional negotiations with Mercosur have been driven in large part by the specter of a future FTAA. That is, deals with Latin America are not only part of a proactive strategy to maximize Europe's influence and market access, but rather a reaction to similar American initiatives in the region.[17] Similar positional considerations were also important in the EU's pursuit of interregional ties with an even more strategically important region, East Asia. Europeans reacted with some dismay to the coming-of-age of the U.S.-led Asia-Pacific Economic Cooperation (APEC) forum in 1993-94, which threatened to privilege U.S. trade with this dynamic region at the expense of an emerging Eurasian relationship. The European response

[17] The EU's overt rationale for concluding a free trade agreement with Mexico in 1999 was to redress the "NAFTA effect," specifically the Europeans' worsened terms of trade with Mexico In a document reporting the conclusion of negotiations with Mexico (European Commission 2000), the Commission

was to sponsor, in 1996, the creation of the Asia-Europe Meetings (ASEM), which promised to promote and institutionalize commercial ties along this relatively underdeveloped third leg of international economic relations. And it is notable that ASEM's forward momentum slowed nearly simultaneously with the deceleration of the APEC process.[18] The more general point is that, like the United States, the EU appears to be not only hedging its bets in the face of the possible breakdown of multilateral liberalization through the WTO, but also seeking to improve *relative* access to key developing country markets.

Perhaps paradoxically, a central assumption underpinning this sort of 'geoeconomic' thinking is the continued stability of the transatlantic relationship itself. But what if this assumption were false—what if the vitality of EU-U.S. political and economic relationship were fundamentally challenged by either internal dissention (e.g., the cumulative weight of successive trade-related disagreements, or the collapse of NATO), or if a credible external threat to Western civilization were to arise? In any of these scenarios might we expect EU (and U.S.) policymakers to reaffirm and strengthen the transatlantic link through formal commercial integration? The answer probably remains no, because doing so could generate powerful fears that the West was turning its back on the rest of the world, a decision that European and American policymakers would have difficulty contemplating even under the most dire circumstances given its wide-ranging implications. Hunkering down in a North Atlantic bunker in reaction to global turmoil would suggest EU acquiescence in the creation of civilizational fault lines—a damaging perception, even if it were only a

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repeatedly couches the benefits of the agreement in terms of its value as a response to NAFTA. See Faust 2004 for more on the EU-Mercosur relationship.

[18] Of course, other factors contributed to the lack of recent progress in APEC and ASEM, notably the disruption of the 1998 Asian economic crisis and the restarting of multilateral trade negotiations after 1999. See Gilson 2004 for a comprehensive discussion of ASEM. Regarding APEC, see Aggarwal and Morrison 1998.

perception. Even during the darkest days of the cold war, when it actually seemed possible that the West might stand alone against a hostile world, no serious steps toward formal transatlantic economic integration were taken. Such steps seem even less likely in the post-9/11 world, despite the fact that the West as a whole is a target of global terrorist networks. While these scenarios are merely counterfactual speculations, they do suggest that there is little strategic reason for the creation of a transatlantic free trade area, whether under current conditions or in the foreseeable future.

Transatlantic identities, convergent or divergent

Our third lens focuses on the role of European identity-building in explaining the absence of interregionalism in EU commercial policy toward North America. In this view, European elites—particularly within the Commission but also in member countries—promote commercial strategies that might help generate notions of pan-European interests and identity among the peoples of Europe. While hardly central to Europeans' everyday lives in the same way as, for example, the introduction of the euro, an interregional commercial strategy would be a subtle way for EU policymakers to prod them to view themselves as part of a cohesive economic, political, and social unit that interacts with other like-units around the world.[19]

The identity-related implications of interregionalism toward North America would be different from those of EU relations with other regions. The United States and Canada are uniquely similar societies to Europe, and thus this relationship involves association with a "peer" region rather than one that has a clearly distinct set

[19] Manners 2001 has suggested that European leaders have sought to foster an overall European identity through comparison to other peer nations. More generally, Karl Deutsch and his colleagues have argued that commercial interactions can generate feelings of mutual identification. See Deutsch et al. 1957 and Deutsch 1966.

of cultural values and traditions, level of development, and the like. This inherent cultural closeness binds EU leaders' perceptions of commercial relations with North America to their view of the EU's place within "the West." Hence while some EU policymakers might see the EU's place as the natural counterpart to North America within a vibrant Western civilization, others might see the ties of the West as a constraint on the establishment of a distinct European polity. What follows is that, given the cultural content of trade and investment, the perceived utility of an interregional commercial strategy toward North America is a function of whether European policymakers believe such a strategy promotes their vision of what the European Union is and should be.

On the one hand, European policymakers intent on maintaining strong cultural and political ties between Europe and North America might promote North Atlantic interregionalism as a new means to bind the two sides of the Atlantic together. The EU accession in 2004 of ten countries from central and southern Europe may have tilted the balance in the Union back to those who desire close ties to the United States, for cultural as well as economic, political, and security reasons.[20] Moreover, Britain, which shares strong cultural affinities with Europe, the United States, and Canada, has been warmest toward transatlantic interregionalism. This British position gained significant leverage over EU commercial policy when Peter Mandelson, a Briton who is interested in resurrecting the NTM, became the EU Trade Commissioner in the latter half of 2004.

Moreover, shared difficulties in coping with "Islam" writ large may be a catalyst for a resuscitation of the West. Despite evidence that the 11 September 2001

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[20] The cultural element of the purported 'Old v. New Europe' distinction may be overdrawn. In a 2003 Pew Research poll, different Europeans were asked whether they thought that "when differences occur with America, it is because of [my country's] different values." Some 33 percent of French and 37 percent of German respondents answered "yes, compared to 62 percent of Czechs. Cited in Judt 2003.

terrorist attacks did not significantly reinvigorate U.S. and European elites' fading sense of common cultural bonds, were Europe to suffer attacks of similar scale from Islamic fundamentalist groups, transatlantic solidarity might dig deeper roots with a growing perception that the assaults were not just anti-American but fundamentally anti-Western.[21] Likewise, difficulties in integrating Muslim immigrants and the debate over Turkish membership in the EU might revive a shared perception of Christianity's role in defining Europe and the West. These negative associations with Islam could lead to the convergence of transatlantic identities and interests through the emerging perception of a shared "other," making closer economic as well as political and security ties with North America an objective for EU policymakers.

However, the more prominent trend among Europeans in recent years has been the exploration of cultural differences between Europe and the United States in particular. European elites have increasingly found common ground amongst themselves in denouncing various practices and institutions that they see as endemic to an alien American character, including the death penalty, violent crime, and income inequality, among others. These views may be connected to skepticism about globalization, which many Europeans see as an American-driven phenomenon that threatens their relatively generous welfare states—a social model that continues to defy the Americans' sink-or-swim model.[22]

[21] For instance, as Lawrence Wright argued in the *New Yorker*, elements of Al-Qaeda targeted Madrid in March 2004 not to punish Spain for its participation in the U.S.-led coalition in Iraq, but because it represents Christendom's eclipse of Islam in the late Middle Ages. See Lawrence Wright, 'The Terror Web,' *New Yorker*, 2 August 2004.

[22] Some have cast Europe as a "civilian power," which highlights the normative aspects of Europe's values and identity (i.e., democracy, the rule of law, economic justice, pooling of sovereignty, etc.) and implicitly or explicitly juxtaposes them to other leading nations (especially the military, commercial, and technological "hyperpower" of the United States). For two distinct approaches to this idea, see Prodi 2000 and Kagan 2003. Inglehart 1988 has similarly characterized Europe as representing a "postmodern" society, increasingly postmaterialist and environmentalist in nature, while the United States represents a hypermodern society, consumerist to its core.

Thus to EU policymakers seeking a common European identity, embracing an interregional strategy toward a U.S.-dominated North America would mean forgoing the gains of identifying the United States in particular as a useful "other."[23] As such, leaders most committed to European unity and autonomy may find it expedient to unite Europe by trumpeting European values as superior to their American counterparts.[24] However, this approach clearly has its limits. European policymakers as a whole are careful to reiterate their support for the transatlantic relationship, and would presumably consider irreparable transatlantic estrangement far too high a price to pay for unclear gains in European identification.

Perhaps less problematically, EU policymakers' transatlantic strategies also reflect their ongoing construction of the EU's "international identity"—and how that international identity stands in contrast to that of the United States. [25] As Robert Kagan described the contrast between the two, the EU, born of cooperative multilateralism, seeks a "self-contained world of laws and rules based on transnational negotiation and cooperation," while the United States believes that "international laws and rules are unreliable" and "true security and the promotion of a liberal order still depend on the possession and use of military might" (Kagan 2003, 3). The Europeans' legalistic approach to international relations seems to have emerged from the EU's own internal evolution, and can be seen, for example, in Europeans' approach to the international criminal court (pooling sovereignty) and its preference for hard targets in

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[23] Waever 1998 has suggested that a convergence of European and American identities necessarily undermines the goal of creating a European identity.

[24] Henry Kissinger, in a July 2001 interview on National Public Radio, accused European policymakers of stirring up anti-American sentiment to bolster European solidarity. Pascal Lamy similarly observed that the best way to get a rousing ovation in the European Parliament these days is to denounce the United States. The *Economist*, 7 July 2001.

[25] Manners (2002, pp. 240-1) has located the source of "normative power Europe's" international identity in three factors: (1) the historical context of the postwar need to overcome nationalism; (2) the "hybrid polity" of supranational and intergovernmental institutions that "transcends Westphalian norms"; and (3) Europe's "political-legal constitution," which enshrines the norms of democracy, human rights, and social justice.

the Kyoto protocol (analogous to the specific economic criteria of EMU). This approach finds a strong contrast in the longstanding American preference for flexibility and freedom of maneuver in international politics, a preference that is particularly strong in the current U.S. administration. Moreover, if this American preference for freedom of action pushes it to pursue perpetual hegemony, a likely European reaction would be “Euro-Gaullism”—the pursuit of European unity for the sake of autonomy from the United States (Kühnhardt 2003, 12). While Kagan’s argument is, by his own admission, a vast simplification, his ideas about Europe’s self-perceived role in the world do identify a clear and substantive point of difference with the United States, and thus suggest a further reason why EU policymakers are disinclined to pursue transatlantic interregionalism.

A realist analysis of international relations would lead us to expect an increasingly coherent EU to maintain the preferences of the strong—i.e., like the United States, for freedom of maneuver to pursue one’s interests and security. However, closer attention to how the EU externalizes an approach to governance developed through its internal experience of building unity may be a better guide to understanding how EU and U.S. perceptions of their interests and identities may continue to diverge. And if divergence is the order of the day, then the EU’s disinclination to pursue an interregional commercial strategy toward a U.S.-dominated North America is hardly surprising.

IV. Conclusion

The commercial ties the European Union has developed with the countries of North America are strong, and will remain so for the foreseeable future. While these relationships have developed separately, today they form a fairly coherent whole: EU trade with Canada, Mexico, and the United States is mostly free and unproblematic, much like trade among the NAFTA members themselves. So why are EU policymakers not seeking to formalize an interregional relationship with NAFTA in a transatlantic free trade agreement (TAFTA)?

To some extent, we can explain the absence of transatlantic interregionalism in functionalist terms: there is no compelling economic rationale for a TAFTA, or for any overarching framework to codify transatlantic economic integration. Why fix what, despite some occasional sputterings, is not broken? But a functionalist lens ignores the politics behind European trade strategies, a limitation we have attempted to redress by considering three more politics-centered analytical lenses. However, it is difficult to identify which of the three hypotheses is most convincing in its explanation for the absence of an impetus within the EU for an interregional strategy toward North America; none would predict a transatlantic interregional strategy for the EU.

From the interest group lens, we see why business groups have not promoted EU interregionalism toward North America with more vigor. The main reason why they have not pushed transatlantic interregionalism lies in the moderate size of the potential gain. The status quo, though not ideal, is more or less acceptable for most of them, while a TAFTA might not bring a large return on their investment in mobilization. However, particularly in its relations with the United States and Canada, European officials have in the TABD and CERT sought to privilege and amplify the voices of pro-liberalization groups (i.e., to reduce their costs of mobilization), and yet these groups have not generated political momentum for an interregional strategy. Their failure to do so cannot be found in the dissent of anti-liberalization groups, which are much more concerned about the possible adjustments necessary in agreements with less developed countries. In already accessible markets such as those of North America, European business groups' advocate technical, sector-specific agreements such as the MRAs, and have little incentive to lobby EU policymakers to initiate a significantly broader project like TAFTA. This contrasts sharply with many other cases of EU interregionalism, in which the potential for broad and deep market opening exists, and thus business groups in particular have stronger incentives to mobilize for liberalizing agreements.

Greater attention to international power dynamics brings into focus a big part of what is truly unique about transatlantic relations. Europe's commercial relationship with NAFTA cannot be understood outside the context of EU-U.S. relations more generally. As the two main centers of established economic power in the world, each has a strategic incentive to secure export markets for its producers. The United States, whether in its creation of NAFTA, APEC, or an FTAA, presents a challenge to Europe's commercial position in the world. In this context, access to potentially lucrative markets is relative, and, as its rationale for pursuing an FTA with Mexico (among others) suggests, the EU is very much concerned with its position relative to the United States. International trade and investment are the primary means through which economic power, influence, and prosperity are redistributed across nations, and by which "national" champions are created. Moreover, given the EU's difficulties in operationalizing a common foreign and security policy—and the increasing gap between EU and U.S. military capabilities—external commercial policy is the realistic locus of Europe's pursuit of relative material gain. Through this lens, a particularly clear picture of the limited prospects of an interregional strategy can be discerned.

While it is difficult to draw direct lines from questions of identities and culture to those of economic relationships, given the cultural content of trade and lingering questions about the coherence of the West, it is also useful to view EU commercial policy through the lens of identity considerations. Surely a shared sense of identity is not a sufficient condition for pursuing an interregional commercial relationship, nor is its absence sufficient to destroy interregionalism's prospects. Yet the EU's struggle to define its internal and external identities, and the omnipresence of an American superpower that insists on going its own way in international affairs, clearly provide a powerful incentive for the EU to define itself in contrast to the bullying hegemon—and a disincentive to tie itself more closely to it. While such a proposition is difficult to substantiate, and may be contingent on the parties and individuals in power in Washington and European capitals at any given time, it cannot be ignored in the current transatlantic political climate.

So, what does the EU-North American case tell us about EU interregional strategies in general? The initial reaction is one of skepticism: if the EU lacks a compelling reason to pursue an interregional strategy toward a region in which Europe has vital interests and which already has its own regional institution, how viable could interregionalism really be as a more general strategy? However, unlike other cases of EU interregionalism, this is the one in which the status quo terms of political and economic relations are acceptable from most relevant perspectives. A major impetus for transatlantic interregionalism would come only from a transformative event that created a new political rationale for such a strategy. Absent such an event, there seems little impetus for an interregional strategy—whether from interest groups, power politics, or cultural/identity considerations. And given that 11 September 2001 was not sufficiently transformative to create this new political rationale, it is probably best to hope that no truly transformative event does occur.

Thus the absence of an EU interregional strategy toward North America does not necessarily undermine the conceptual or policy significance of interregionalism more generally. What it does suggest is that EU interregionalism is, at least at this point, primarily a strategy aimed at achieving gains the EU has been unable to reap through more traditional multilateral and bilateral channels. And while there may not be a single, unified logic for pursuing an interregionalism, and while bilateral or multilateral approaches may serve specific goals more efficiently, interregionalism has generally proven productive—or at least not counterproductive—for most all actors with an interest in EU foreign economic policy. The absence of an EU interregional strategy toward North America, in which the net gains from interregionalism would be far smaller than toward other regions, does not undermine this basic calculus. And if the Doha Round of WTO negotiations were to falter, the appeal of an interregional strategy toward all regions, perhaps including North America, would grow.

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