

# Europe's Latest *Infatuation*

BY STEFAN SCHÖNBERG

*The idea of TAFTA, a trans-Atlantic free trade area, is getting hot.*

European trade politicians keen on “shaping globalization” (alias protecting unskilled European workers against global competition) are digging out an old idea: the establishment of a Trans-Atlantic Free Trade Area (TAFTA). In Germany, senior representatives of the Christian Democratic Union (CDU) are pressing Chancellor Angela Merkel to make TAFTA a key topic of her forthcoming EU presidency. Politicians in other EU countries, members of the EU Parliament, and part of the financial press have been echoing the idea.

The possibility of establishing a TAFTA had been pondered intermittently in Europe in the past, above all during the heydays of free trade during the 1970s and 1980s. This time, the plan rests on defensive thinking: The mature western market economies are at risk, it is argued, of becoming outmanoeuvred by the state-directed economies of China and other Asian countries. These countries are not willing to play by the rules. Through currency manipulation, product piracy, violation of copyrights, and various forms of wage, social, and environmental dumping, they were rolling up western markets, resulting in unemployment and falling living standards. The democracies of North America and Europe could succeed only by jointly protecting the interests of their citizens against the “economic

---

*Stefan Schönberg is the former head of the International Relations Department of the Deutsche Bundesbank.*

attacker states” of Asia. Transatlantic political and defense cooperation were not enough—it was also necessary to align the economic strategies. The “New Transatlantic Agenda,” established in 1995, had not brought sufficient progress in this respect. The stumbling blocks were the bureaucrats on both sides of the Atlantic. Therefore, political guidance was needed in order to achieve a breakthrough with the aim of establishing a “transatlantic market” through 2015, for financial services and capital markets even already until 2010. An agreement would need to tackle tariff and non-tariff trade barriers and also include anti-trust policies and coordination in international trade policies without creating new supranational institutions or new legal systems.

On an abstract level, the idea of a TAFTA is not without charm: Both the United States and the European Union have entered into economic partnership agreements with the whole world, but not with each other, a somewhat strange situation given the common economic interests in many areas. Both are facing a range of similar economic problems, from the uncertain supply of energy to demographic developments. Through transatlantic market integration, a counter-balancing force could be established, large enough to stay in control of the global regulatory principles and of technical standards. Based on such considerations, German industry, and probably industry in most other EU countries, has favored a TAFTA for many years.

The problem with the European position is that a trade agreement with the United States is seen as an instrument not for more, but rather for less free trade. Together, the United States and Europe would be in a better position to protect their markets against “unfair competition” from Asia. In uncoded terms, TAFTA would be an instrument for a new form of protectionism.

The European debate over “guided trade” is burdened with questionable arguments. For instance, the 4.5

---

*The European debate over  
“guided trade” is burdened with  
questionable arguments.*

---

million unemployed in Germany are being directly related to the 4.5 million jobs created by German industry abroad over recent years, whereas numerous studies indicate that investment abroad has benefited the German economy.

The debate is also a reflection of the European inclination to look for the culprits for economic problems beyond its borders. In the 1960s it was Japan, in the 1970s it was Korea, whose rapidly growing exports were interpreted as an attack on the economic position of Europe. Meanwhile, Japan and Korea have proven that global trade does not resemble David Ricardo’s famous 1817 comparison of Portuguese wine being exchanged for English cloth. The majority of global trade takes place among industrial countries as an exchange of goods produced in the same sectors.

In the context presented, the TAFTA proposal is largely a diversion from the insight that major groups of society in Europe do not profit from global trade, because sectoral adjustment is delayed by national governments. There are still other reasons for being cautious, for instance the question of why reaching agreement over further opening agricultural markets, one of the major

*Continued on page 64*

---

*The idea of a TAFTA is not without charm: Both the United States and the  
European Union have entered into economic partnership agreements with the  
whole world, but not with each other, a somewhat strange situation given the  
common economic interests in many areas.*

---

*Continued from page 41*

stumbling blocks in the Doha trade negotiations, would be easier in a bilateral than in the multilateral context. There is also the risk that a European initiative in favor of trans-Atlantic free trade could be regarded as turning away from the multilateral WTO.

As to be expected in the light of the institutional self-interest of bureaucracies, the EU Commission has promptly rejected the TAFTA proposal. That plan would conflict with the efforts of the Commission to strengthen trade with Asia, and to remove trade barriers with Korea, India, and the Southeast Asian states. The European Union lacks the resources to pursue both projects at the same time. Finally, attempts to establish a TAFTA would be a slap into the face of developing countries.

According to a recent Goldman Sachs survey, on balance, Europe is profiting from globalization. The ascent of new markets, like those of the BRIC countries, is stabilizing the European business cycle. Germany and other Western and Northern European states have specialized in sectors subject to comparatively low competition from emerging market economies; 68 percent of industry in the old EU member states and most of their services industries were offering products complement-

---

*In uncoded terms, TAFTA  
would be an instrument for  
a new form of protectionism.*

---

ing the Asian range of production. In Germany and the Scandinavian countries, the share of “winner branches” was even higher due to their product mix. Southern European countries, on the other hand, specialized mainly in products such as textiles and leather goods, competing with those made by the emerging market economies. A TAFTA may constitute a proper instrument for pushing forward trans-Atlantic economic integration benefiting both sides. It would be a mistake, however, to look at it mainly as an economic defense mechanism against Asia. ◆