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The European Union and North America

by

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Abstract
This paper assesses the past, present, and future of transatlantic commercial relations in terms of EU trade strategies. After surveying the medium-term trajectories of the relationships with the United States, Mexico, and Canada—both separately and as a group—it will consider several possible sources of European Union trade preferences vis-à-vis NAFTA, including interest groups' incentives to seek to capture national and European governing institutions, the balance between the European Commission and the Council of Ministers, European leaders' desire to balance against overweening American power, and possible attempts to construct either a common Western identity or, alternatively, a European identity in contradistinction what the United States seems to represent. The hope is that these different approaches provide a contrasting set of interpretations whose comparison side-by-side allows new insights into the dynamics governing EU-North American trade relations.

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THE EUROPEAN UNION AND NORTH AMERICA

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1. Introduction[1]

Since the early 1990s, the United States and the European Union (EU) have taken halting steps toward institutionalizing cooperative economic and trade relations in a bilateral framework. EU and U.S. negotiators have come up with several potential frameworks—including the Transatlantic Partnership (TAP), the Transatlantic Business Dialogue (TABD), and the New Transatlantic Agenda (NTA)—in which to cement commercial ties between these two economic giants. Each has hailed the vitality and importance of transatlantic economic relations; yet, each has failed to build momentum toward a larger goal of a Transatlantic Free Trade Area (TAFTA).

While the United States and European Union were launching these serial trial balloons of institutionalized commercial ties, Washington was simultaneously busy establishing the North American Free Trade Agreement (NAFTA), which, by promoting unfettered commerce among the United States, Mexico, and Canada, created a new North American economic bloc that would potentially rival the EU in world markets. While not as institutionally ambitious as the EU, NAFTA became a cornerstone of U.S. trade policy as a gateway to a prospective Free Trade Area of the Americas (FTAA), and a key piece of the evolving patchwork of international economic integration. Thus the establishment of NAFTA—and the prospect of a future FTAA—promised to embed EU-U.S. trade relations in an increasingly complex web of current and future relationships, involving some countries directly (Mexico and Canada) and others indirectly (potential members of NAFTA, FTAA, and the EU). As such, while assessing a potential interregional relationship between the EU and North America as a whole must start with an understanding of the EU-U.S. relationship, it is also essential to consider the EU's aspirations vis-à-vis Mexico, Canada, and indeed all of the Americas to understand the dynamics of transatlantic relations.

This paper assesses the past, present, and future of transatlantic commercial relations in terms of EU trade strategies. After surveying the medium-term trajectories of the relationships with the United States, Mexico, and Canada—both separately and as a

[1] I would like to thank Justin Kolbeck, Matthew Odette, and Daniel Xu for their energetic and insightful research assistance.

group—it will consider several possible sources of European Union trade preferences vis-à-vis NAFTA, including interest groups' incentives to seek to capture national and European governing institutions, the balance between the European Commission and the Council of Ministers, European leaders' desire to balance against overweening American power, and possible attempts to construct either a common Western identity or, alternatively, a European identity in contradistinction what the United States seems to represent. The hope is that these different approaches provide a contrasting set of interpretations whose comparison side-by-side allows new insights into the dynamics governing EU-North American trade relations.

2. EU commercial relations with North America

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 have to consider those with each North American country individually.

Europe and the United States

Commercial relations between Europe and the United States over the last 150 years have been a consistent story—with one big blip—of ever closer union. Trade between the two sides of the Atlantic steadily increased between the latter half of the nineteenth century and the outbreak of war in Europe in 1914, with the United States entering the war for the most part because Germany's unrestricted naval warfare wreaked intolerable havoc on U.S. trade with the belligerents. Growth in transatlantic trade resumed through the end of the 1920s; the Great Depression that followed was exacerbated by policies that sharply curtailed this trade. The postwar cooperation between Western Europe and the United States in creating the liberal international economic order, with its provisions for facilitating stable and open trade relations between the two, was largely a legacy of shared dissatisfaction with the beggar-thy-neighbor policies of the 1930s—and was not simply a reaction to the threat of the Soviet Union.[2] The two sides' commitment to the General Agreement on Trade and Tariffs (GATT)—which was formally multilateral but

[2] Kahler 1996.

whose direction was determined in large part by U.S.-European collaboration—helped to liberalize transatlantic trade relations, to the effect that by the 1970s earlier levels of integration had been reached once again. Agreements in the Kennedy, Tokyo, and ultimately the Uruguay Rounds of multilateral trade negotiations formalized this creeping process of cooperation and liberalization. The point of this dash through the history of transatlantic commercial relations is simply to show that, generally speaking, both Europe and the United States have prospered when transatlantic commerce has bloomed, and both have paid a heavy price—and indeed the international economy as a whole as paid a heavy price—when it wilted.

Today, the Europe-United States commercial relationship remains the cornerstone of the world 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 1998 worth roughly $400 billion.[3] The relationship is similarly intimate with respect to investment: in 1999, European firms accounted for over 60 percent of FDI stock in the United States (roughly $600 billion in total), while American firms owned a similar proportion of investment stock (approximately $500 billion in total) in EU member countries.[4] The total amount of trade and investment streaming across the Atlantic comes to $36 billion *per day*.[5] The current level of economic integration is high, and is only getting higher.

Assessments of troubles in EU-U.S. commercial ties tend to suffer from a lack of a sense of proportion. Economic relations remain, despite headline-grabbing disputes about seemingly small issues, almost completely trouble-free. As EU trade commissioner Pascal Lamy has asserted, less than 2 percent of total EU-U.S. trade is involved in some sort of dispute.[6] Much of this exchange is intrafirm, which underscores the fact that transatlantic "trade" is very much intertwined with investment and merger and acquisition activities. Given the extensiveness of mutual interests, both with one another and with respect to the global economy, the two have retained a broadly consonant preference for, and agenda in, multilateral liberalization of trade and investment through

[3] Lamy 1999b [check if this is right]
[4] Burghardt 2001.
[5] Blinken 2001.
[6] Lamy 2000.

the WTO—despite each's participation in various regional, transregional, and interregional arrangements.

In the past as now, however, growing integration and interdependence have not been synonymous with unproblematic commercial relations. During the 1940s and 1950s the United States overtly sought to undermine the systems of imperial preference Britain and France had constructed among their respective colonies. During the 1960s the United States and Europe fought the "chicken wars," and Europe chafed under American benign neglect of its role as international creditor and its export of inflation from the Vietnam War and Great Society programs. In the 1970s the two were buffeted by the collapse of the Bretton Woods system and the oil shocks, and the United States put increasing pressure on Europe (and particularly West Germany) to act as an engine of world growth. Among the problems during the 1980s were the pasta and citrus wars, as well as European progress toward a single market that made Americans nervous about a new "fortress Europe." Over the past decade, bananas, genetically-modified organisms, steel, and the tax status of U.S. multinational corporations have all tested the bilateral relationship (as well as the fragile enforcement mechanisms of the WTO). U.S.-European trade relations have always involved complex patterns of economic intercourse as well as political cooperation and contention, and these more recent developments should be seen in this light.

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 retain their role as partners even in the face of a growing sentiment that their relationship would be increasingly defined by commercial competition. 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.

Transatlantic Declaration. 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.

New Transatlantic Agenda (NTA). The New Transatlantic Agenda was unveiled 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, for its part, 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. However, 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 less sexy but still quite important matters of harmonizing standards and cooperating on other nontariff barriers more generally.

The TABD, for its part, sought to provide 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. (The United States specifically sought, and the EU accepted, the exclusion of Canadian businesses from the TABD.) 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 the sectors of telecommunications, medical equipment, electromagnetic compatibility, electrical safety, recreational craft, and pharmaceutical manufacturing practices. By some estimates, these agreements save U.S. industries alone $1 billion annually.[7]

[7] Blackwill and Archick 1998.

Despite this alphabet soup of smaller agreements, 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 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. Subsequent trade spats have clogged both the newspaper headlines and WTO arbitration mechanisms, though nearly all have ended quietly in compromise. More recent ructions in relations resulting from disagreements over Iraq and international security more generally have clouded the very existence of the West as both an emotive [w.c.] and practical entity, making ideas of formal commercial integration—which would be as much a political as an economic process—that much more distant. How the two will manage their relationship—both with one another and with respect to the world economy, in the WTO and bilaterally—has not yet taken firm shape.

The European Union and Mexico

For most of the period up to the 1990s, Mexico was but a faint blip on the European trade radar screen, accounting for less than one percent of Europe's international trade. However, as the EU trade 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.[8] While these trends were clearly in place before NAFTA, the inauguration of a free trade area in North America 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

[8] European Commission 2000.

Mexico—and thus to make Mexico the only country other than Israel to have a FTA with both the EU and the United States.

The free trade agreement, known officially as the "Economic Partnership, Political Coordination and Cooperation Agreement," or more pithily (if less modestly) 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."[9] 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 aims (or "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.[10] The Mexican government's liberalization policies over this period had increased the proportion of the Mexican economy that was dependent on international trade, and thus intensified Mexico's vulnerability to economic shocks in the United States. Thus, even though Mexico shared the U.S. economic boom of the late 1990s (and its recession in 2001), 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 need to reduce its dependency on its northern neighbor became more salient

[9] European Commission 2000.
[10] Gower 2000.

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[11]—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 Canada

The recent trajectory of the politics 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 advanced industrial countries, one need not puzzle long over the EU's inclination to harmonize its relationships with the two, even as it maintained them separately. 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 similar-yet-distinct path, 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. The EU and Canada also negotiated more specific agreements on customs cooperation in 1997, MRAs in 1998, and competition law enforcement in 1999. In nearly every case, these agreements closely mirrored similar developments in EU negotiations with the United States.

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 do share many structural similarities as well as common positions on

[11] Gower 2000.

several quarrels with the Europeans—notably on genetically-modified food and hormone-treated beef—the former has its own interests to look after in its ties to Europe. While commercial relations are mostly harmonious, Canada has had several ugly confrontations with Europe (and with the Spanish in particular) over fishing rights in the North Atlantic 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—a staggering 86 percent of Canadian exports go to the United States.[12] Moreover, Canada may feel even more acutely than Europeans the effects of American hegemony, sharing reservations about the intrusions of American popular culture and the Bush administration's attitudes toward international treaties on matters such as landmines, arms control, and the International Criminal Court.

However, realizing Canada's lesser presence in the Europeans' field of vision—and thus that a separate EU-Canadian bilateral track is unlikely to promote distinct Canadian interests—Canada has sought to embed EU-Canadian relations in a broader EU-NAFTA context. Indeed, Canada has, like its co-monarchist counterpart the United Kingdom, sought to play the role of facilitating middleman in a putative interregional relationship between the EU and NAFTA. The government of Jean Chretien, the long-serving 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."[13]

Yet Canada's entreaties have received only the most tepid of responses from both Commission and European national officials.[14] 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

[12] "Canada seeks deal with EU," *The Gazette*, 17 April 2001.
[13] Council of Europe (2000).
[14] 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

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. What is clear, however, is that Britain, together with Canada, remains a vital pivot of the transatlantic relationship in all areas, most clearly in trying to manage a post-9/11 international security agenda, but also in governing transatlantic commercial relations.

The European Union and NAFTA

Describing the relationship between the EU and NAFTA is not a straightforward task, for the simple reason that this interregional track does not (yet?) officially exist. However, it is possible to consider some aspects of NAFTA that would possibly shape a future interregional relationship, as well as some moves that have been made to date that have sought to create some momentum for an explicit EU-NAFTA relationship.

The EU's commercial relations with the North American countries are strong and relatively well maintained. It appears that tariffs are no longer an important long-term issue: while there are occasional difficulties arising from one side's imposition of short-term duties to safeguard a struggling domestic sector (e.g., the U.S. administration's steel tariffs of 2002), the main hindrance to greater EU-North American commerce—and the issue addressed in agreements like the MRAs—are 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.[15] What happens in transatlantic economic relations—whether in official trade agreements or disputes, as well as in day-to-day commercial transactions—has

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heterodox view has never made it into the mainstream of political discourse in the United Kingdom, Lamy felt it necessary in a mid-2000 speech to acknowledge and then to criticize this viewpoint.

[15] DTI 2001.

repercussions far beyond the arena in which it is governed. Whether and how an EU-NAFTA track 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 internal aspects of NAFTA: its institutionalization and its asymmetry. NAFTA is highly institutionalized: it features a clear set of rules governing trade between Mexico, Canada, and the United States, and a dispute settlement mechanism for managing any conflicts that might arise. It also has specific provisions to ensure the integrity of labor and environmental standards, a feature intended to limit the possible repercussions of lax Mexican enforcement in these areas. As such, if the EU were to enter negotiations with NAFTA as an entity, it would be dealing with a bloc that has a clear institutional identity and purpose—if not nearly the depth and scope of political-economic integration that exists among the countries of Europe.

However, NAFTA as established in 1995 is not analogous to the European Economic Community in 1958, nor even the European Coal and Steel Community in 1952. NAFTA is simply a free trade area, which, in the hierarchy of forms of regional institutions, is at the low end. While highly institutionalized, it is minimally "integrationist." Born of the convergence of pragmatic self-interest among its members—and not in the unique context of postwar, "never again" Europe—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. The main reason for this ceiling to NAFTA's growth seems clear: the overwhelmingly dominant position of the United States within NAFTA, and the fairly consistent skepticism of the U.S. Congress to most types of international economic integration.

Unlike Europe, where a fairly symmetrical distribution of power among the largest member states (and the traditional Franco-German axis) have 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. The NAFTA debate was particularly enervating: while the battle of ideas seemed clearly won by the Clinton administration in Vice President Gore's 1993 debate with Texas billionaire Ross Perot (discerner of the "great sucking sound" of U.S. jobs going to Mexico), its vote gathering for Congressional passage was so painstaking that in his *Doonsbury* comic strip cartoonist Gary Larson portrayed Clinton as having to offer to wash Congresspersons' cars in the White House driveway to gain their votes. The wounds of that battle are still healing, and thus when Mexico's president-elect Vicente Fox declared in 2000 that NAFTA should become more like the European Union—perhaps with structural funds?—the polite silence he received from Washington was probably the best he could have hoped for. Hence Canada's lonely calls for closer EU-NAFTA relations, and Mexico's hopes for greater intra-NAFTA integration, are both likely to go unheeded unless political conditions change dramatically in Washington.

Moreover, despite current attitudes in Washington toward trade agreements in general, NAFTA is probably a transitional set-up, 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 wooing countries such as Chile to become NAFTA members before the creation of an FTAA, thus strengthening the NAFTA model over a more developmentalist version likely preferred by Brazil and some other Latin American countries. This 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 by 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—its transitional status as a gateway toward the greater project of a Free Trade Area of the Americas makes it likely that both North and South Americans as well as Europeans view it as a temporary arrangement. Only if negotiations for an FTAA were to break down, or if an FTAA were to fail to be ratified by the legislature of a key participant, would NAFTA be likely to take on a more permanent status and potentially make separate trans- or interregional agreements on its own.[16]

For these reasons, a related question that this book seeks to address—whether European Union trans- and interregional trade initiatives foster “counterpart coherence” within the bloc negotiating with the EU—would seem to be answered in the negative in the context of the EU-NAFTA relationship. 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.[17] While in some cases of trans- and interregional relations the EU literally created its counterpart region, NAFTA exists before any interregional track has begun, and it will likely evolve only to the extent that Washington allows; 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.”[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.

But the absence of an EU-NAFTA track is not just—or even primarily—a result of NAFTA’s limitations. The interests of the EU are central to this story. So the question remains: why has there been little impetus in the EU to develop an EU-NAFTA track, and what factors will shape the prospects of transatlantic interregionalism in the near future?

3. Possible sources of European Union trade preferences toward North America

[16] 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.
[17] Sbragia 2001.

What follows are four different potential sources of EU trade preferences vis-à-vis the countries of North America. Given the course of events to date, they represent different possible factors that explain the *absence* of—and whose change could potentially create an impetus for—an EU push for an interregional relationship with NAFTA.

Interest group pluralism

From the perspective of European interest groups (particularly specific industries and firms), the question regarding commercial relations with North America is clear: what do we want that we don't already have? And the question for analysts is: is what they want comprehensive enough to lead them to band together to advocate a project as big as a Transatlantic Free Trade Area—and to do so with enough vigor to overcome other political and economic obstacles to a TAFTA?

To address these questions it is essential to understand which interest groups want what and why. Some European actors—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 corporations 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 1998 to reduce testing and certification costs.[19] Indeed, the Commission is solicitous of business group advocacy: Lamy, addressing a meeting of the TABD, asked CEOs to "keep the pressure on us" for continued transatlantic liberalization.[20] If the United States continues to use "carousel" retaliation against European imports (i.e., rotating the affected products) in response to EU noncompliance with certain WTO rulings against its trade practices, a number of

[18] Council of Europe (2000), pp. 17-18.
[19] Council of Europe 2000, p. 6.
[20] Lamy 1999a.

previously unmobilized industries might in fact increase the pressure on the EU to find new ways to address the conflicts in the transatlantic trade relationship.

Arrayed against this set of pro-free-trade groups are a number of politically influential sectors that are a great deal 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 postponed any adjustments they would have to make until well into the future. 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 are likely to 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 recent attempts by the Commission to rein in the EU fleet have met stiff opposition, particularly from the Spanish.[21] Meanwhile, the United States and Canada remain opposed to EU moves to keep hormone-treated beef out of European markets, and it is hard to see EU farmers—and perhaps consumers as well—accepting compromise on this issue. 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 supports even in the face of EU enlargement—seem to make any agreement that actually reduces supports a distant dream, at least within the EU-North American context.

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 agreeing to work together to fight off 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 is in force until 2005. Meanwhile, the row over the Bush administration's imposition in 2002 of temporary tariffs on steel imports (from which Canada and Mexico

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

were notably exempted) has begun to die down as Washington has waived restrictions on an ever-growing proportion of imports, suggesting that the safeguard action was a tactical maneuver to forestall opposition of the U.S. steel industry to the passage of trade promotion authority.[22] 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 the own protection.

Given the relative parity between of European free-trade groups and their more skeptical counterparts, and the relative acceptability of the status quo to all involved, there seems to be little prospect of an interest group-led groundswell for a TAFTA. Yet the logic for such a free trade area does exist. 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.”[23] However, if this were the case, why not push for a deal that cuts out the middleman? Wouldn’t European firms 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?

It seems that reasons for pro-free trade business groups to push for a TAFTA exist, but either have not been envisioned as part of a broader free trade project, are not all that compelling, or have not effectively been promoted through the Commission or national governments. Thus a focus on interest group pressures is not only insufficient to explain the absence of an EU push for TAFTA (overall, it would be benefit most sectors, and the sensitive ones could simply be left out of liberalization), but, given recent experience, we would simply expect sectoral groups to push for their own arrangements (e.g., MRAs) rather than build intersectoral alliances for broader free trade. Some sort of inherent “state” interests seem necessary to explain the shape of transatlantic trade relations.

EU institutional processes

[22] “Dangerous activities,” *The Economist,* 11 May 2002.
[23] Gower 2000, pp. 3-4.

To some extent, the EU's disinclination to pursue an interregional accord with North America might be better understood as a function of the continued dominance of the Council over the Commission in setting the broad direction of European trade policy.[24] While in recent years the Commission has appeared well-disposed toward some form of TAFTA, the voices of skeptical member states in the Council to date seem to have stymied any forward movement on this front.

In the mid-1990s, the Delors Commission was riding the wave of big thinking that led to the creation of the single market, plans for a single currency, and, perhaps most ambitiously, the establishment of a common foreign and security policy (CFSP)—the last of which the Commission was eager to see fall under its own purview. Yet the only real authority the Commission maintained in external affairs was in trade negotiations (less so in actual trade policymaking). However, in an era when trade increasingly came to be seen as strategic, the Commission perhaps wanted to gain backdoor entrance into a CFSP through expanding its power of initiation in trade policy. Given the importance—and unsettled state—of transatlantic relations after the end of the cold war, the Commission broadened its horizons on liberalizing commercial relations across the Atlantic from mere technical agreements (though it never actually neglected these) to a more ambitious TAFTA. In 1998, EU trade commissioner Sir Leon Brittan pushed hard for a comprehensive transatlantic (specifically, EU-U.S.) trade agreement. However, the Council, animated by France's hostility to the idea, demurred. Though the Commission may remain interested in the TAFTA concept, it has since reverted to resting its position on technical, rather than strategic, grounds: it supports TAFTA "provided that a strong economic case can be made for a transatlantic accord."[25]

Despite the Commission's continued desire for task expansion in the foreign affairs milieu, and the advance of qualified majority voting (qmv) in the Council, intra-Council politics and norms provide a tight constraint on any Commission ambitions toward negotiating an interregional accord with NAFTA. The independent foreign policies of Britain, France, and, increasingly, Germany make the Council a powerful brake on any EU-wide foreign policy, which would require the support of each of the big

[24] According to Meunier 2000, "trade policy remains one of the last bastions of sole Council legislative power."
[25] Council of Europe 2000, p. 3.

member states as well as most if not all of the smaller states. Moreover, the spread of qmv is not likely to progress quickly in matters of international affairs, and the prevailing consensus norm in the Council further hinders strong policymaking even in areas where majority voting formally applies. Therefore, even as the Commission seeks greater latitude to pursue transatlantic deals, the Council seeks to tie its hands. So it was with the EU-U.S. Blair House agreement over agriculture at the climax of the Uruguay Round negotiations of GATT in 1992: though the Commission, then at the apex of its influence under Delors, managed to broker a deal, the disapproval of certain EU member states later allowed the Council to unravel the deal.[26]

Further hampering any Commission capacity to pursue a TAFTA is its own internal institutional fragmentation in trade policy. Again, the agricultural sector provides an example. The locus of authority in EU agricultural trade is the Directorate General of Agriculture (DG Agriculture) rather than DG Trade. As a result, European farmers—which are protected against external competition by the EU's Common Agricultural Policy, well-organized in their determination to maintain this protection, and well-connected to their regulators in DG Agriculture—are essentially able to dictate terms to the Commission on agricultural trade policy. As Cadot and Webber have shown, this fragmentation of authority within the Commission goes a long way to explain a recent, particularly corrosive transatlantic spat over trade in bananas. In this case, the strong position in DG Agriculture (and with certain member governments) of minority banana-trading interests made compromise both internally within the EU and externally with the United States extremely difficult.[27] Alternatively, in negotiations in which the EU is asymmetrically powerful and thus able to satisfy the demands of powerful domestic sectors—as with agriculture in the Global Agreement—this institutional fragmentation is less consequential. More generally, the combination of the Commission's institutional fragmentation and its reliance on close connections to the interests it regulates (a feature of national bureaucracies everywhere) would make the compromises necessary in bargaining—or even agenda-setting—with a peer counterpart such as the United States/NAFTA quite difficult. Unless negotiations on key sectors such as agriculture were

[26] Meunier 2000, pp. 82-83.
[27] Cadot and Webber 2002.

either pushed well into the future or left off the agenda entirely, it is easy to see how tightly the Commission's hands are tied vis-à-vis a TAFTA.

This "institutionalist" view provides a plausible account of the obstacles facing the constituency of pro-TAFTA officials in the European Union, and thus the absence of a strong push toward a broad-based agreement with North America. Yet if trade with North America is indeed "strategic" for the EU and its constituent member states, we have yet to find a convincing source of the Union's strategic preferences (given the relatively narrow and technical agenda of firms and industry groups, and the internally-focused tug-of-war between the Commission and the Council). Explanations that consider Europe's place in the world may offer some clues here.

Balance of (economic) power considerations

Another approach to understanding EU trade policy toward North America focuses on how the Union derives its trade preferences from considerations of the economic "balance of power," particularly vis-à-vis the United States, and how the terms of this economic, and ultimately political, competition might benefit the EU relative to its American competitor.

Europeans have in recent years shown less willingness to stifle their dissatisfaction with Washington's tendency to pursue unilateral policies in various arenas of international politics. What's more, the two have been beating each other about the head and shoulders with the WTO stick on various trade-related issues. As noted above, such transatlantic rows are nothing new; yet they may have taken on a different quality since the collapse of the Soviet Union removed the common security threat that served to limit the fallout of these conflicts. Even more recent disagreements, whether over the American rejection of binding international law and agreements (e.g., the Kyoto protocol on global warming, the Anti-Ballistic Missile treaty, or the International Criminal Court) or preemptive pursuit of post-September 11 security objectives (e.g., war in Iraq), have reinforced perceptions that Europe and America increasingly stand apart on the vital matters of the day, and that, although overt security competition between the two remains unlikely, political-economic competition is ever less constrained by a clear, mutually-perceived set of shared interests.

In this view of U.S.-European relations, we would expect EU preferences in trade to derive from a desire to increase the Union's influence on the world stage vis-à-vis the United States. This expectation does not immediately preclude the pursuit of a preferential trade agreement between the two sides of the Atlantic; most policymakers might be expected to understand that trade is not zero-sum, and that a trade war between the two would leave both worse off. Rather, the EU might be expected to pursue trade strategies that would engage the United States in an agreement—whether through the WTO or in a transregional deal—whose terms reflected the interests of Europe more than those of the United States, and thus provided relative gains to the former. However, it is difficult to see how the United States would agree to such an arrangement; hence we might expect the European Union to prefer a hub-and-spoke strategy toward other countries and regions that institutionalized a relatively powerful EU's preferences while seeking to shut out the United States.

To some extent such a strategy seems to be evident in the European approach to the Americas. To date, the EU has strictly adhered to a bilateral approach toward each of the countries of North America, which maximizes the EU's bargaining power vis-à-vis each of them while excluding Washington's direct influence from any negotiations bar those between the EU and United States (except, of course, in multilateral WTO negotitions). The EU's interregional negotiations with Mercosur, for their part, seem to be not so much motivated by the desire to maximize bargaining power, but rather 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.[28] 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.[29] Its ongoing negotiations with Mercosur suggest a preemptive move against similar losses from the creation of an FTAA. Similar positional considerations were also important in the EU's pursuit of interregional ties with an even more strategically important region, East Asia.

[28] See Faust's chapter in this volume for more on the EU-Mercosur relationship.
[29] In a document reporting the conclusion of negotiations with Mexico, the Commission repeatedly couches the benefits of the agreement in terms of its value as a response to NAFTA. See European Commission 2000.

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 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. Notably, this relationship was conceived as one among equals—despite the relative institutional poverty among the countries of East Asia—and thus from a strategic angle served less as a part of an EU-centered hub-and-spoke strategy and more as a pragmatic response to the ascension of APEC. And, though it is hard to make precise statements about cause and effect here, it is notable that ASEM's forward momentum slowed nearly simultaneously to the deceleration of the APEC process.[30] 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 an analysis that focuses on the EU and United States pursuing their interests separately 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 make a political statement by strongly reaffirming and strengthening the transatlantic link through formal commercial integration? The answer probably remains no, for the simple reason that doing so would be tantamount to the West 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 political implications. Politically, creating a TAFTA in reaction to global turmoil

[30] Of course, other arguments can be made to explain 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's chapter in this volume for a comprehensive discussion of ASEM. Regarding APEC, see Aggarwal and Morrison 1998.

would suggest EU acquiescence in the creation of civilizational fault lines; economically, there would be the tangible costs to the European producers and consumers of de-globalizing the international economy. 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. 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

We might also look to the realm of ideas and identities to generate explanations for European trade preferences toward North America. In particular, we might consider the fate of "the West"—and how policymakers view the fate of the West—as a useful guide to whether Europeans will look to increase or circumscribe their commercial relations with North America. Once again, this view leads us to focus on the relationship between Europe and the United States.

There has been a fair degree of disagreement among observers of transatlantic relations about the basis of the idea of the West. Some, such as Owen Harries, view the notion of the West as an expedient of the cold war, created by American and European policymakers to strengthen popular resistance to encroaching communist powers.[31] For them, with the cold war over, the West as an ideational construct will collapse, leading to the disintegration of NATO and increasing divergence in the interests and identities of Europeans and Americans. The divisions within the West regarding war with Iraq—though, importantly, not specifically between the United States and a united Europe—seem to lend support to the pessimistic view. Others, such as Miles Kahler, think that the roots of an idea of Western civilization run deeper, given America's European ancestry and Europe's growing experience with American cultural exports even before the Second World War.[32] From a different point of view, Samuel Huntington's notion of a "clash of civilizations" also sees a strong future for the West in the face of other hostile

[31] Harries 1993.
[32] Kahler 1996.

civilizations, a thesis that, despite most analysts' derision at the time of publication, has received much more attention since September 11.[33]

Given both the cultural content of trade, we might expect EU trade preferences to reflect the relative willingness of Europeans to see a cultural convergence with the United States. On the one hand, European policymakers intent on maintaining strong cultural and political ties between Europe and the United States might promote new ways to tie the two sides of the Atlantic together. For example, Britain, which already shares strong cultural affinities with both Europe and the United States (and Canada), has been the champion of the idea of a TAFTA, which could strengthen the conviction among Europeans and Americans that they share a common cultural space.[34] Moreover, despite evidence that the 9/11 terrorist attacks have not significantly redressed U.S. and European elites' fading sense of common cultural bonds, were Europe to suffer similar attacks, transatlantic solidarity might dig deeper roots with the realization that the assaults were not just anti-American but fundamentally anti-Western. In this unhoped-for scenario, terrorism could serve as a catalyst for the convergence of transatlantic identities and interests through the emerging perception of a shared "other." In this context, closer economic relations as well as political and security ties becomes particularly plausible.

However, the more prominent trend within Europe at least since the inauguration of George W. Bush seemed to be to highlight cultural differences between Europe and the United States. Perhaps embodied in the forty-third U.S. president, Europeans have increasingly found common ground amongst themselves in denouncing various practices and institutions that they see as endemic to the American character, including the death penalty, missile defenses, violent crime, income inequality, "frankenfoods," and several others.[35] This growing anti-Americanism may also connected to a greater skepticism about globalization, which Europeans tend to see as a primarily American-driven phenomenon. More generally, it may be possible to characterize Europe as representing a postmodern society, increasingly postmaterialist and environmentalist in nature, while the United States represents a hypermodern society, consumerist to its core. Were these

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[33] Huntington 1996.
[34] This viewpoint runs in the tradition of Deutsch's (1957) "transactionalism," in which repeated interactions among peoples generate a greater sense of shared identity.

characterizations to hold sway, we might expect Europeans to prefer less than completely free trade with the United States, as it seeks to maintain its distinct cultural identity—embodied in its un-Disneyfied cultural output and uncompromised agricultural standards—by keeping the United States at arm's length. The EU's reluctance to accept free trade in the entertainment industry lends support to such a view.

This question of transatlantic identities might also find its origins specifically within Europe and the dynamics of European unity. It might be possible to suggest that the more European leaders focus on deepening Europe, the less willing they will be to integrate with the United States. Successful deepening of European institutions requires the ongoing construction of a European identity, an identity that has proven quite difficult to imbue among EU citizens. Some have suggested that a convergence of European and American identities would of necessity undermine the goal of first creating the European identity.[36] As such, European leaders may find it expedient to do the opposite, to seek to unite Europe on the back of the transatlantic relationship by trumpeting European values as superior to their American counterparts.[37] Henry Kissinger, in a July 2001 interview on National Public Radio, accused European elites of doing exactly that. However, if the dynamics of European unity favor enlargement, with the inclusion of an ever more diverse group of "new" Europeans under the EU umbrella, we might expect a more propitious environment for Western cultural convergence (or at least less divergence). Indeed, the enlargement of the European Union to the east would bring within the EU countries such as Poland that have tended to demonstrate strongly pro-American views.

In addition to Europe's internal identity, we might also consider how transatlantic relations respond to the EU's ongoing development of an "international identity"—and how that international identity stands in contrast to that of the United States. [38] In an influential article, Robert Kagan, an American political commentator, described the

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[35] Kagan (2002), for one, has claimed that a U.S.-European divergence is *not* a function of the temporary effects of ideological differences among ruling parties or specific leaders.
[36] Waever 1998.
[37] Pascal Lamy remarked 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.
[38] 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.

contrast between the two: the EU, a "weak" actor 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."[39] 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 the Kyoto protocol (analogous to the 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. While Kagan's argument is, by his own admission, a vast simplification, his ideas about European elites' views of international governance and their basis in Europe's unique postwar experience of integration do identify a clear and substantive point of difference with the United States, and thus suggest a further roadblock to their potential ability to see eye to eye on how to govern transatlantic commercial relations.

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 the experience of multilateral interactions among its members (and perhaps networks of concertation among governments and interest groups within many member countries) may be a better guide to understanding how EU and U.S. perceptions of their interests and prescriptions for behavior in international politics may continue to diverge. And if divergence is the order of the day, then the absence of an interregional track between Europe and a U.S.-dominated North America would hardly be surprising.

4. Conclusion

The trade relationships that the European Union has developed with the countries of North America are probably the most mutually beneficial transregional commercial ties

[39] "You can be warriors or you can be wimps; or so say the Americans," *The Economist*, 10 August 2002.

in human history. While these links 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 don't the EU and NAFTA simply formalize this relationship in a Transatlantic Free Trade Area?

To some extent, we can explain the absence of transatlantic interregionalism from a functionalist standpoint: there is little *need* for a TAFTA. Specifically, 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? There is also a compelling political rationale not to pursue a formal interregional relationship. Both the tangible and symbolic repercussions of any but the most "open regionalist" transatlantic free trade arrangement would be quite dire for the rest of the world, especially developing countries.

But functionalist approaches are not sufficient to help us understand the source of European trade preferences and how they are translated into interregional outcomes. The problem in the EU-NAFTA case is that it is difficult to identify which of the four hypotheses is most convincing in its explanation for the absence of a viable EU-NAFTA track; in none of the four do the relevant factors suggest that the EU should clearly be pursuing transatlantic interregionalism. However, some do seem better than others.

Least illuminating is the interest group hypothesis. The main reason why pro-free trade groups have not pushed hard for a TAFTA is that the status quo is quite acceptable for most of them. 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, and yet these groups, despite the fact a TAFTA would clearly be in their interest, have not generated political momentum for it. But 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. Ultimately, TAFTA would be more of a *political* project than a commercial one. In already accessible markets such as those of North America, business groups' relatively narrow focus may allow them to advocate successfully for technical, sector-specific agreements such as the MRAs, but they do not have a sufficiently broad worldview to be the key drivers behind a political project like TAFTA. Thus even if European firms and industries advocated more strongly for a TAFTA, it is doubtful that their agitation alone would suffice to bring the EU to pursue it.

The European Commission, for its part, has never been known to shy away from a political project. Its interest in a TAFTA, and the Council of Ministers' disinclination to allow the Commission to pursue that interest, can indeed help us understand to some extent why the Union as a whole has not gone down the interregional path with NAFTA. Simply put, when push comes to shove the Council still gets what it wants. Given the incrementalism that generally characterizes changes in the balance of institutional power in the EU, even in the face of new members and a new constitution, this approach also provides a clear prediction that the absence of an EU-NAFTA track is likely to continue well into the future. However, in its neglect of factors external to Europe—notably the characteristics of the counterpart region—this hypothesis can only give us a partial account of the dynamics of this relationship.

Greater attention to the international power dynamics involves starts to bring 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 great centers of economic power in a world in which globalized market forces are increasingly redefining the rules of engagement among nations, the need to secure export markets for the vitality of European producers and for the sake of domestic prosperity has become a primary *strategic* goal of the EU. The United States, whether in its creation of NAFTA, APEC, or an FTAA, presents a challenge to this European goal. 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. If we were to consider this approach together with a focus on EU institutions, we might find a persuasive interpretation in the idea that the Council's aloofness from the idea of a TAFTA may derive in large part from its representation of national opinions that in some cases see the EU's main purpose to be as a counterweight to American power. Trade is the means by which economic power, influence, and prosperity are redistributed across nations, and by which "national" champions are created. Moreover, given the EU's glaring inability to realize 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 TAFTA can be discerned.

As for the constructivist hypothesis, it is difficult to draw direct lines from questions of ideas, identities, and culture to those of trade relationships. Yet given the cultural content of trade, and the current fascination among some European and American analysts with the seeming divergence between the commonly-held values in their (two?) civilizations, this hypothesis is particularly hard to ignore in this case. Surely a shared sense of identity is not a sufficient condition for the creation of an interregional commercial relationship, nor is its absence sufficient to destroy interregionalism's prospects. Yet the presence of an EU struggling to define both its internal identity and its external identity, 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 powerful disincentive to tie itself more closely to it. While such a proposition is difficult to substantiate, and may be highly contingent on the parties and personalities in power in Washington and European capitals at any given time, it cannot be ignored in the current transatlantic political climate.

Stepping back from these hypotheses, a key question for whether the EU will press for an interregional relationship with NAFTA as opposed to separate bilateral tracks with the United States, Mexico, and Canada depends on whether the EU sees a major overlap in what it wants vis-à-vis each of the three NAFTA countries and a prospective FTAA. Certainly the EU's interest in Mexico—gaining access to protected sectors and redressing the eroded terms of trade for the EU resulting from NAFTA—is closer to the EU's interest in the rest of Latin America (and indeed the rest of the developing world) than it is to the need to maintain access and reduce technical barriers to trade with the United States and Canada. Because the EU has already established itself in Latin America through deals with Mexico and Mercosur, the only apparent reasons to deal with NAFTA as a regional entity would be if (1) the EU could get a better deal from the United States if Mexico and Canada were involved (a situation Washington would certainly seek to avoid), or (2) if the FTAA process were to falter and intra-NAFTA integration were to move forward (perhaps in the absence of progress in multilateral talks). The first scenario is unlikely because Washington would almost certainly seek to avoid having its bargaining freedom circumscribed by the involvement of Canada and Mexico. The second scenario is perhaps more plausible, though one imagines that the United States would do whatever necessary to avoid the simultaneous collapse of both WTO and FTAA negotiations.

Ultimately, any inquiry of EU-U.S. trade relations must recognize that transatlantic trade relations are already so deep, and the web of U.S.-European commercial, social, cultural, and political relationships so dense, that if there were any inherent need for an overarching framework for transregional trade and economic relations, one would already exist. Therefore, these existing conditions suggest that the impetus for a change in the status of these relations would have to be powerful, sustained, and unambiguous. Of all the EU's relationships with other regions, that with North America is probably the one in which the region-to-region status quo is such that there is little to be gained from establishing a formal interregional arrangement. The EU as a whole does quite well out of the current state of affairs—mostly unproblematic access to the U.S. and Canadian markets, and a free trade area with Mexico—and the rest of the world is not excluded from any preferential arrangement among the world's largest and most prosperous markets.

Given the economically rational basis of the status quo, a TAFTA could really be possible only if a transformative event realigned preferences in such a way as to create a new political rationale for an interregional agreement. Absent such an event, there seems little impetus for the creation of a TAFTA—whether from interest groups, EU institutions, power politics, or cultural/identity considerations. Some of these factors are better than others for explaining the past and predicting the future of any formal institutionalization of the EU-NAFTA commercial relationship. And given that September 11 was not sufficiently transformative to create this new political rationale for a TAFTA, it is probably best for European and North American officials to hope that no truly transformative event does occur. Ultimately, the absence of formal interregionalism is not an indicator of the ill-health of transatlantic relations—but its future presence would likely be a reflection of a more parlous state for world politics and/or the international economy as a whole.

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