

Possible Strategies for Increasing Free Trade in Europe and the Americas

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Both the European Union (EU) and the North American Free Trade Area (NAFTA) have brought net economic benefits to the member countries and citizens of these economic free trade areas in the opinion of some economists. This paper is speculative in nature. It proposes consideration of some possible bold solutions that may help bring about wider free trade among Europe, the Americas and other areas of the world. One possibility would be to somehow combine the European Union and NAFTA into one larger economic community. The paper discusses some ways to possibly do this.

Both the European Union (EU) and the North American Free Trade Area (NAFTA) have brought net economic benefits to all of the member countries and to many of their citizens as a result of increased free trade, in the opinion of many economists. Of course, these and other mechanisms to promote free trade are not perfect. Persons working in industries that were formerly protected by tariff and other barriers to free trade may indeed have been hurt in the short run. Many economists agree that free trade generally benefits the economies of all countries that adopt it in the long run. Politically, free trade is hard to accomplish or to maintain due to the strong opposition of many who benefit from protectionism of many kinds and by nationalists who fear multinational institutions for a variety of reasons.

This paper is speculative in nature. It proposes consideration of some possible bold solutions that may help bring about wider free trade among Europe, the Americas and other areas of the world. This paper does not attempt to quantify how much is lost economically as a result of tariffs and other trade barriers between the European Union and NAFTA, for example, nor does this paper discuss how such quantitative data could best be measured. This paper also does not attempt to discuss the current political feasibility of suggestions to help bring about wider free trade between the European Union and NAFTA and other areas of the world. Discussion of possible strategies to reduce tariff and other trade barriers is especially relevant to the business community in both Europe and the Americas and elsewhere in the world. Such discussion may lead to efforts to quantify possible economic benefits of strategies to promote freer trade and to a eventual change in current political attitudes toward specific strategies to support freer trade between the EU and NAFTA and other areas of the world.

Since its founding, the European Union has followed a strategy of expansion by adding new countries to membership over time. After the end of the cold war, countries in Eastern Europe such as Poland, Hungary, the Czech Republic, Slovakia, Latvia, Lithuania and Estonia have been admitted as full members of the EU. East Germany came into the European Union by becoming part of the German Federal Republic. Successor countries of what was once called Yugoslavia and some other countries in

Eastern Europe such as Bulgaria and Rumania are in one or another stages of membership application or recent acceptance as full members of the European Union.

The EU is expected soon to consider starting membership talks with Albania, and Serbs may soon be granted permission to travel without visas in the EU next year possibly as a first step towards eventual membership for Serbia in the EU (*Wall Street Journal*, November 13, 2009 page A17). There is also talk of consideration of EU membership for Turkey in the future. Iceland's Parliament voted narrowly on July 16, 2009 to apply to join the European Union after a financial crisis that included the collapse of its currency, the krona, and failure of its banking system (*Wall Street Journal*, July 16, 2009, page A7).

The European Union has formalized an institutional process for the entry of new members including a commissioner in charge of enlargement. Some Europeans look forward to possible eventual membership of the Russian Federation, which is currently negotiating a possible free trade area with Belarus and with Kazakhstan.

NAFTA has not expanded its membership beyond Canada, Mexico and the United States of America. There is no commissioner in charge of enlargement nor any other institutional support within NAFTA for possible future enlargement. Rather than support the enlargement of NAFTA, the United States has in recent years been negotiating free trade agreements between the United States and a variety of countries. The United States has successfully completed and ratified agreements for freer trade with Singapore and Chile. Agreements with Panama, South Korea and Colombia have also been negotiated on a bilateral basis by the United States during the George W. Bush administration but have not as yet gained acceptance by the U.S. Congress nor extensive public support from the Barack Obama administration. There seems to be some strong opposition to ratifying these three agreements in Congress, principally due to the feeling of some in Congress that free trade will mean losses in jobs in the United States to the other countries signing these bilateral agreements. Canada and Mexico have also been negotiating possible bilateral agreements with a number of countries without any involvement by NAFTA.

One optional future strategy to promote free trade in the Americas and perhaps with countries in other locations would be for NAFTA to follow the European Union's strategy and seek enlargement in the Americas and perhaps with countries outside the Americas. For example, NAFTA could possibly seek a combination with Mercosur, a somewhat limited free trade area that now includes Argentina, Brazil and some other South American countries. The vision of this strategy would be to seek a free trade area that might someday include all of the Americas with perhaps some other countries as well. A possible first step in such a strategy would be for the present NAFTA members (Canada, Mexico and the United States) to develop a commissioner for enlargement of NAFTA with appropriate support staff.

There are also several optional strategies toward developing a free trade area that would expand NAFTA under a new name to include some countries with similar economic, cultural and political philosophies elsewhere in the world. There is strong political opposition in the United Kingdom to the growing power of the European Union to decide more things on a centralized basis and some opposition to a possible development of what would amount to a United States in Europe with a strong federal government in Europe with its own foreign ministry and possible defense ministry for all Europe that could make decisions possibly without consensus of the members of the EU. There is also some opposition as well to further increasing of EU wide economic decisions and further EU wide economic regulation in Europe.

NAFTA could adopt a strategy of seeking to enlarge its membership by inviting the United Kingdom, the Irish Republic and possibly some other members of the Commonwealth such as Australia and New Zealand and the independent nations in the Caribbean that were once British colonies to join NAFTA. If such an invitation were extended to independent former British colonies in the Caribbean, perhaps some of the former Dutch colonies in the Caribbean would also be interested in joining. While these Caribbean nations that are former British and Dutch colonies are small in the size of their economies, they do have some strong economic ties especially with the United States and with Canada as well as with their former colonial powers and have some cultural ties to the United States and Canada through immigration of some of their citizens to the US and to Canada. The enlargement of membership in NAFTA to include some Commonwealth and other countries would create a large free trade area in which each country would

maintain more political sovereignty in each member country than what may occur in the European Union in the future. Some other European countries might also find an enlarged NAFTA more advantageous than the alternative of a European Union with a more centralized federal government.

An even broader strategy could be developed between Europe and the Americas to bring wider economic benefits of free trade to Europe and the Americas. One way to do this would be to find some way to combine the European Union and NAFTA into a free trade area that would span the Atlantic and unite much of Europe and North America (and possibly most other countries in the Americas by inviting the members of Mercosur and other countries in the Americas to join in this enlarged free trade area).

According to Jeremy Rifkin's *The European Dream* (New York: Tarcher/Penguin, 2004) the European Union is now the largest internal single market and the largest trader of goods and services in the world. More than four hundred fifty five million persons are now participants in this common market in Europe. NAFTA, consisting of Canada, Mexico and the United States, is almost of the same size in population. If some way could be found to join these two free trade areas into a single Atlantic common market, a free trade area comprising more than half of the Gross Domestic Product of the entire world would be created, bringing likely increased prosperity to all the member nations and their citizens. This market could at the same time or later be enlarged to include other free trade associations and other countries that might be interested in joining such an enlarged free trade area.

How could this be accomplished? For a number of years, the EU and Mercosur in South America have been discussing developing a wider free trade area by negotiation between the EU and Mercosur. Perhaps a similar negotiation between the EU and NAFTA could lead to a wider common market eventually. This negotiating process would probably take many years to accomplish if negotiations would proceed on a similar schedule as to what has occurred so far in the negotiations between the EU and Mercosur.

An alternate strategy to more quickly achieve an Atlantic free trade area would be for Canada, Mexico and the United States to apply to join the European Union directly as member nations, in a similar manner to the recent accretions of Eastern European nations to the European Union. The EU would have to amend its membership rules to allow the membership of countries from the Americas to apply for membership in the EU. This could perhaps be a major political problem. Canada, Mexico and the United States all share some common cultural heritage with Europe as a result of their former colonization by European nations such as England, France, Spain and Holland. North America also received many immigrants from Europe during the Twentieth Century. In recent years, there has been some divergence in this joint cultural heritage as a result of recent immigration. North America has seen increased immigration from Asia and from Latin America with a smaller portion of immigration coming from Western Europe. Europe has seen an increased immigration from countries in North Africa that were former colonies of several European powers and from other predominantly Muslim countries such as Turkey.

The economies of the three North American nations in NAFTA are generally similar to those of the European nations in the EU. Both the EU and NAFTA share similar ideas of democratic government and other democratic institutions such as universities and other non government organizations and institutions. Some small territories in North America, such as the French former colonies in North America, are already part of the EU since they are now departments of France and are thus integral parts of France and the EU. Some of the former Dutch possessions and former British possessions in the Caribbean also have ties to the EU. Adding the NAFTA countries to the European Union would seem to be an easier way (despite the political problems involved) to create an Atlantic free trade area than to negotiate a new multinational entity that would require an extensive set of negotiations to achieve the same results. Such a process could in fact be similar to the recent expansion of the EU by adding eastern European nations after the end of the cold war.

The European Union is not a perfect organization. The EU could perhaps benefit by some changes such as a better guarantee of property rights as is found in the U. S. Constitution and by a smaller central bureaucracy. Nevertheless, the EU has probably benefited the nations involved in their common market. Despite flaws in the EU, joining the European Union would probably bring many economic advantages to

citizens of Canada, Mexico and the United States as well as to the citizens of the present member nations of the EU.

The businesses and economies of both present NAFTA member countries and present EU could benefit by a freer flow of labor with elimination of visa requirements and institution of common rights to work anywhere in the enlarged EU for citizens among all the members of the enlarged EU including NAFTA. There might also be some other efficiencies in operation of corporations in the enlarged free trade region operating under the same economic regulations more of their activities. For example, one set of antitrust and anticompetitive regulations would probably be more efficient for companies to comply with than to try to comply with different antitrust regulations in North America and in the present EU. Common financial regulations could also benefit business, banking and investment in an enlarged EU including NAFTA.

An expanded EU including NAFTA members (perhaps renamed the Atlantic Union) might benefit all members nations concerned in other ways besides the obvious economic advantages of a larger and more efficient common market. Long standing cultural ties between Europe and North America might be strengthened. For example, use of a common transcript and credit and degree systems throughout Europe and North America could benefit student and faculty exchanges among universities. Common university transcripts might also benefit employers. Long standing cultural ties between Europe and North America might also be reinforced by a larger and more efficient common market. Organizations such as the Royal Society of Arts in the United Kingdom which is reaching out to North America in its various activities to support the independent sector of society might be able to work more closely with other similar organizations to the benefit of all concerned. Charities that are working to support research to find ways to prevent and to cure diseases may also be able to be more effective in a larger economic free trade area.

The EU allows its member countries to maintain their separate identities in many areas such as currency. Some members have adopted the Euro as a common currency and others have maintained their own currencies. Opt out clauses would enable the new members from North America to preserve their own currencies, their own bills of rights, constitutions and systems of law and in other areas where they wish to do so. Canada, the United States, the United Kingdom and the Republic of Ireland all share the same English common law system in many areas of law. The accretion of Canada and the United States to the European Union would also strengthen the English common law system within the European Union.

Applications for membership in the EU by Canada, the United States and Mexico would cause much political controversy in both Europe and North America. The NAFTA members would first have to develop a consensus that such membership would be worthwhile to each NAFTA nation. If the NAFTA members were to achieve such a consensus and applied for membership in the EU, a similar consensus would have to be achieved in Europe among EU member states that NAFTA members joining the EU would benefit European members of the EU. Present EU membership requirements might not allow NAFTA countries to formally apply for membership in the European Union. If NAFTA members did apply anyway there would likely be some political controversy on changing these membership requirements to allow North American countries to be considered for membership in the European Union. Such changes in membership requirements and consideration of North American countries for membership might even require unanimous approval by all present members of the EU. Perhaps this may not be possible to achieve but it might be easier to accomplish than to start from scratch with a new organization that would encompass both NAFTA and the EU.

There is nothing new in such political controversy either in NAFTA or the EU. Each time the EU has been enlarged there was such political controversy among the member nations and in the politics about joining that went on in each nation that was considering joining the EU. The development of NAFTA also stirred similar controversy in North America. The prospective economic advantages of an Atlantic free trade area might justify building a political effort for achieving this goal through NAFTA members joining the EU. If this could not be done for political reasons, then it might be worthwhile to consider the alternative of establishing a new free standing Atlantic free trade area that would invite all members of both the EU and NAFTA and perhaps other organizations, such as Mercosur, and some other nations to join.

One long term advantage of adding the present members of NAFTA to the EU or alternatively establishing a new Atlantic free trade area to replace NAFTA and the EU would be the likely development of common regulations in such areas as workplace and product safety, the environment and mobility for workers throughout the NAFTA and EU areas. Such a development would result in a level playing field for all of the present NAFTA and EU members as a result of standardization of such regulations. Economic competition among firms located in all countries in NAFTA and the EU would no longer include possible competitive economic advantage in safety, the environment or the mobility of workers. This level playing field would make competition among firms in all the member countries fairer to all concerned.

Policy makers and citizens in both the Americas and Europe should also begin considering strategies to expand NAFTA to cover all of the American if possible and the European Union to cover more of Europe as well as to ultimately combine these free trade areas somehow into an Atlantic free trade area. Eventually other countries are free trade areas such as the Association of South East Asian Nations could also join to the likely long run economic benefit of all concerned.

One first step that could be taken would be for economists to study the potential economic efficiencies that might be available through a combination of the EU and NAFTA into an Atlantic free trade area. Studies could also be begun of the potential economic efficiencies of a wider NAFTA encompassing more of the Americas and a wider EU encompassing more European countries. Based upon these studies, political scientists and other experts on international affairs could then work with public interest groups such as Chambers of Commerce and others to help develop and support the political efforts needed to bring about an Atlantic free trade area.

Development of an Atlantic free trade area could bring economic benefits to each nation joining this enlarged free trade area to the benefit of citizens and business firms.