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COLLEGE OF EUROPE

16 February 2008

Online at <https://mpra.ub.uni-muenchen.de/7186/>  
MPRA Paper No. 7186, posted 16 Feb 2008 07:45 UTC



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## **European Economic Integration**

**The EU trade policy is an important contribution to overcome slow economic growth in the EU countries. Challenge this point of view.**

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**The EU trade policy is an important contribution to overcome slow economic growth in the EU countries. Challenge this point of view.**

### **Common Commercial Policy and trade liberalisation**

Creation of a Common External Tariff (CET) for the Customs Union (CU) targeted by the six countries of the Rome Treaty required setting up of a Common Commercial Policy (CCP), also designated as trade policy. Article 133 of the Treaty establishing the European Community (TEC) grants exclusive powers to the European Union (EU) for the CCP. Along with the Common Agricultural Policy (CAP) and the competition policy, the CCP has rapidly become one of the major and core competences of the EU. The basic philosophy underlying the provisions of the TEC is that of a market open to imports from outside the EU, insofar as the trade partners do likewise. Article 131 indeed provides that Member States (MSs) aim to contribute (...) to the progressive abolition of restrictions on international trade and the lowering of customs barriers". Overall, the CCP provisions of the Treaty express a clear commitment to world trade liberalisation for this very reason that the EU estimates free trade within the EC brought prosperity to its MSs. The principle of "open market economy with free competition" (art. 4 TEC) and the overall objective of liberalising world trade at large set out by the Treaty prevent the EU from having tendency towards protectionism.

EU trade policy developed over the past decades essentially through the GATT rounds and through multiple bilateral agreements with third countries [5, 10]. The then European Economic Community (EEC) spoke for the first time with one voice in the Kennedy Round (1965-66): since then, the EC has taken an active part to the following GATT rounds as a single trade actor: the Tokyo Round (1973-79), the Uruguay Round (1986-94), which led to the creation of the World Trade Organization (WTO), and the current Doha Development Round (2001). These multilateral negotiations rounds are the main levers for the GATT/WTO to achieve a complete liberalisation of world trade. In addition to these rounds, the permanent GATT rules, as agreed by the EU and its trade partners, prevent any backsliding or regression from round to round;

according to these rules, tariffs are bound, non-tariff interventions are prohibited (with the exception of agriculture and food products), and so are new import quotas.

As a result of the successive GATT/WTO rounds, tariffs have been significantly lowered, except for agricultural products for which tariffs remain high. Nowadays, few and moderate EU tariffs peaks remain for non-agricultural products, notably in textiles and clothing; these tariff peaks are rather an exception [8]. Also, after the Uruguay Round, there is basically no longer volume protection through import quotas. The Multiple Fibre Arrangement (MFA) that set quantitative restrictions for textiles and clothing has been phased out over 10 years, from 1995 to 2005, leading to a drastic liberalisation in this sector. The last quotas remaining are not significant or apply between the EU and non-WTO countries (e.g. iron and steel quotas with Russia) [8].

Despite of the fact that it is hard to overestimate progress in EU international trade liberalisation made in the span of last several dozens years, EU still applies instruments that not infrequently prove to be at least as harmful to free trade as tariffs barriers. Between the mostly used ones one has to mention anti-dumping and anti-subsidy duties, price-undertakings [6, 9], as well as regulatory barriers like standards or health, safety and customs procedures [7, 8].

### **EU trade policy and growth**

The issue of an extent to which EU trade policy can contribute to its economic growth remains directly linked with relation between liberalisation of EU's external trade and growth stimulation. Although it can not be argued that resulting from among others relatively liberal trade policy openness of European economies does contribute to EU's economic development one should not overestimate the role of trade exchange in accumulation of MSs wealth as the EU share of external trade in total trade amounts to no more than 30% approximately. That means that the greatest part of imports and exports occur within EU thus is not referred to by EU trade policy. That also suggests that the potential impact of EU trade policy alone on EU economic growth is limited to that extent. In addition, one has to be particularly cautious when analysing direct link between trade and growth. There is no reason why growth should be positively correlated with trade volumes across countries [1]. Studies that examine correlations between

growth rates and trade volumes cannot provide fully satisfactory evidence on the effects of trade on growth [1, 6]. The new trade and endogenous growth literature rather shows that openness has a direct positive impact on innovation, technology dissemination, international knowledge spillovers, which are in turn determinant for economic growth [6]. These recent theoretical studies therefore identify the human capital formation and the increased incentives for research as the main channels through which trade operates.

Apart from the issue of not evident link between trade liberalisation and growth there still lurks the problem of protectionist measures applied by EU. The model developed by Vandebussche and Wauthy [9] shows that EU antidumping proceedings, through price-undertakings notably, affect equilibrium of qualitative choices of EU and foreign firms and even lead to a reversal quality ranking inducing larger profit diversion effect. This causes a European welfare loss on the long-run. Hoeller et al. clearly shows that in the periods when the EU was less active in undertaking of anti-dumping proceedings its real GDP growth rate was rising [6]. Theoretical and empirical studies therefore show that this frequent use of anti-dumping measures undermines the EU growth.

### **Growth and the agriculture and food products problem**

As it has been already stated process of trade liberalisation in the frameworks of GATT/WTO has been as far practically limited to non-agricultural products. In fact this is the question of agricultural trade liberalisation which clearly remains the major problem faced by the EU in WTO negotiations. The EU has always remained highly protectionist for agricultural products as its Common Agricultural Policy (CAP) has been designed to protect European producers from the world competition by allowing a very restrictive EU market access to third countries, while subsidising EU exports (3 billion euros attributed by EU each year to export subsidies accounts for no less than roughly 90% of OECD countries export subsidies). This causes profound damages to the EU economy. Firstly a cost-benefit analysis shows that the combined costs to consumers and taxpayers substantially exceed benefits to producers [7]. Hence, the CAP entails considerable net costs to EU by itself. Secondly, protection of European farmers from world competition results in further sustaining of food overproduction incurring additional alternative

and real costs. Finally by maintaining this highly protectionist policy for agricultural products, the EU brings the WTO negotiations to a deadlock: a number of countries are reluctant to open their market for non-agricultural products and they condition any progress on that matter to a better access to EU market for their agricultural products [2]. And indeed, applied protection remains substantial in numerous countries (most of all developing ones)" [2]. This situation is particularly damaging for the EU exports of services and industrial goods. Indeed, the EU has a lot to gain in liberalising market access for manufactured goods since it is a strong exporter of these. Having better access to still protected markets all over the world would certainly boost the EU production of these goods. On the other hand, as far as services are concerned, they represent a considerable and rapidly increasing part of the production and employment in the EU being the fastest growing sector in its economy and making EU the leading exporter of these [10].

Now, the current negotiations in the Doha Round on that matter are stuck so long as the EU does not make any further concession on agriculture and food trade. As a consequence, the EU deprives itself from large markets for its manufactured goods and for its services by maintaining a high protection on agriculture. Not only the CAP has net costs for the EU, it also prohibits de facto potential huge benefits in other areas that could boost its economic growth. Finally, if the next conference in Hong-Kong eventually comes to nothing or to negligible progress, this will seriously undermine the future credibility of WTO as this will be its third consecutive failure, after Seattle (1999) and Cancun (2003), although it has to be pointed out that EU recently declared its readiness to liberalise agricultural trade.

### **Growth and the EU trade policy objectives**

As it has been suggested EU trade policy contribution to economic growth of MSs should be considered at best moderate if not negligible – on one hand due to still extensively applied extra-tariff measures such as anti-dumping proceedings and safety and health procedures, on the other hand because of lack of direct link between liberalisation of trade in industrial commodities and stimulation of growth. All this seems quite logical if one takes under consideration the fact that EU trade policy objectives are to less extent aimed at promotion of growth rather than at achieving social and political goals.

Parallel to WTO negotiations, the EU has concluded a large series of bilateral agreements with individual countries and with regional ensembles [5, 10]. These agreements have other perspectives and target other goals than growth stimulation. They are not motivated solely by economical considerations, they are also designed for political reasons. Firstly, there are association agreements with countries destined to ultimately join the EU, like the Central and Eastern Europe countries in the 90s, and some Western Balkans today and in a near future; these agreements are meant to prepare full accession of these countries. The partnership agreements with EU neighbouring countries aim at maintaining peaceful, privileged and stabilized relationships with the direct EU surroundings. A series of bilateral agreements with Middle East countries, South-Africa and Gulf countries are based on political and security considerations.

Secondly, trade is considered by the EU as a way to promote development of poor countries. In this perspective, the EU has signed an Economical Partnership with ACP countries; it has also adopted a Generalized System of Preferences, and then the "Everything But Arms" program, in order to give complete access to its market to every good, except arms, from the poorest countries in the world. Finally, EU signed trade and association agreements with Chile and Mexico and negotiations to establish a free trade area with MERCOSUR are on-going, though at a difficult phase.

On the whole, these series of bilateral agreements do not aim at boosting EU economic growth, but rather at contributing to pacify and secure the world. In that perspective, the EU trade policy "mirrors and substitutes" the EU foreign policy: all these agreements involve countries having "deep historical and geographical ties" with EU MSs [3]. For that matter, these agreements are "mixed agreements", i.e. signed by the EC/EU and the MSs, for this very reason that they go beyond the pure trade issues, thereby exceeding the competences of the EU. Trade policy is considered by the EU as a component - a key component indeed - of an overall strategy towards the rest of the world, a strategy focused on development and stabilization.

This is obvious within the GATT/WTO framework as well, as the EU constantly seeks to extend the multilateral negotiations to non-trade issues. The EU thus brings issues like investment,

competition, public procurement, labour standards, environment (known as the “Singapore issues”) on the WTO agenda. This is an attempt to promote the making of rules within WTO, in order to build a regulatory framework for liberalised markets. The problem is that by doing so, the EU overburdens the WTO work programs, slows down further liberalisation of agricultural and food trade [10] and thus blocks any progress on every other subject what, despite of EU’s recent declarations of readiness to liberalisation of agricultural trade at the Hong-Kong conference, contributes to further sustaining of existing status-quo.



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