

Trade and Aid Policy

European Economic Integration

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Summary

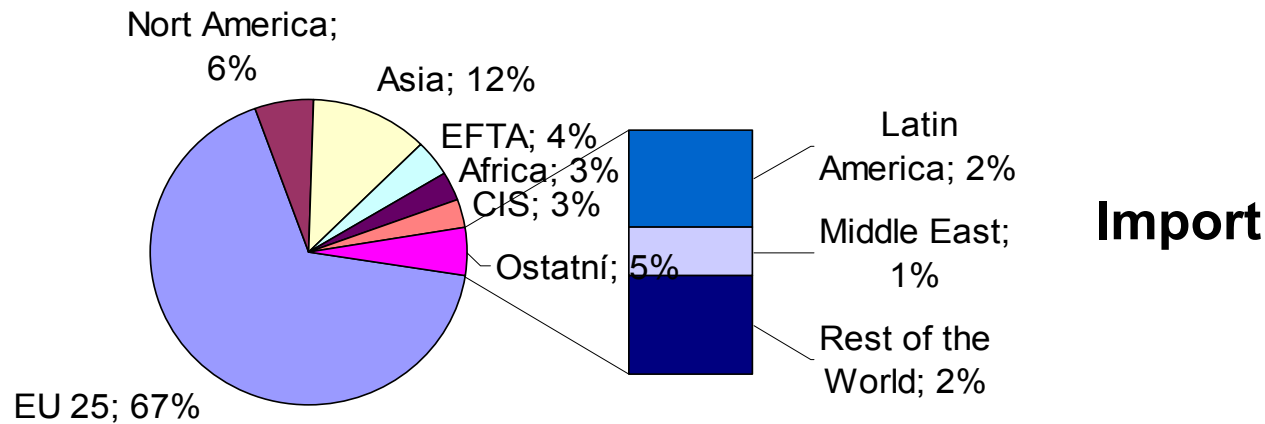
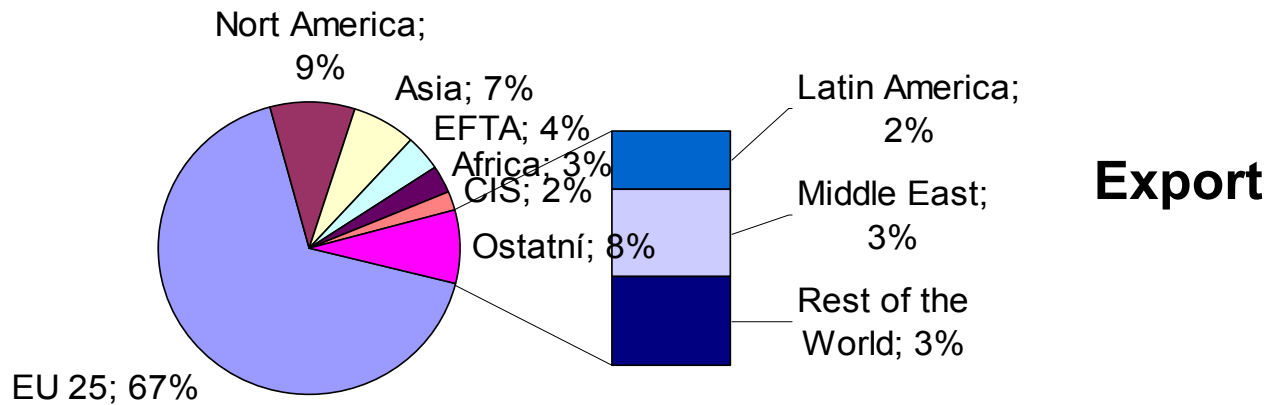
- Facts about EU trade flows
- Institutional aspects of trade policy
- EU trade partners

World trade flows

2002	Exports	Imports
West Europe	42%	41%
EU-15	39%	38%
EU-15 (-int.trade)	15%	14%
East Europe	5%	5%
New EU members	2%	3%
Russia	2%	1%
North America	15%	22%
USA	11%	18%
Latin America	6%	5%
Asia	47%	38%
Japan	7%	5%
China	5%	5%
Middle East	4%	3%
Africa	2%	2%

Source: Jovanović: The Economics of European Integration

Structure of EU trade partners



Source: Baldwin, Wyplosz: The Economics of European Integration

World trade institutional setup

- Multilateralism

- General rules binding on all countries
- Slow and time-consuming progress

- Unilateralism

- Bilateral trade agreements between countries
- Risk of discrimination and fragmentation in international trade

- GATT (General Agreement on Tariffs and Trade)

- Established in 1948
- Aim: predicted framework for international trade negotiations and regulation

- WTO (World Trade Organisation)

- Replaced GATT in 1995 as permanent forum for trade issues
- Approx 150 members

General principles of GATT/WTO

■ Reciprocity

- Mutual provision of equal or similar favours between two states
- Transparent rules for discriminatory liberalisation such as FTA or CU
- Accepted preferential approach to developing countries

■ Non-discrimination (most favoured nation clause, MFN)

- Extending same trade conditions to trading partners as were or will be extended to other countries (non-discriminatory liberalisation)

■ Main functions

- Regulations governing conduct of international trade
- Impartial settlement of trade disputes
- Framework for multilateral negotiations to liberalise world trade

Rule-making negotiating rounds

- 1. Geneva (1947, 23 countries)
 - Tariffs
- 2. Annecy (1949, 13 countries)
 - Tariffs
- 3. Torquay (1950-51, 38 countries)
 - Tariffs
- 4. Dillon (1959-1962, 26 countries)
 - Tariffs
- 5. Kennedy (1963-1967, 62 countries)
 - Tariffs and anti-dumping
- 6. Tokyo (1973-1979, 102 countries)
 - Tariffs, non-tariff barriers, multilateral agreements
- 7. Uruguay (1986-1994, 125 countries)
 - WTO creation, tariffs, agriculture, textiles, services, intellectual property, trade related investment, VER
- 8. Doha (2001-?, 149 countries)

Features of WTO negotiations

- Long negotiating and transitory periods
- Growing number and increasing diversity of negotiators
 - Previous model with EU-USA as leader ceasing to exist, more active developing countries
 - Increasing role of developing countries
- More difficult issues on agenda
 - Initial agenda: tariffs
 - Current agenda: liberalisation of agriculture and services, non-tariff trade barriers, competition policies, market access, protection of intellectual property, environment, etc.)
- Heated differences
 - Among developed countries (USA, EU, Japan)
 - Developed versus LDCs
 - NGOs (environmentalist, consumer groups, trade unions, etc.

Why a common trade policy?

- Arguments in favour of common trade policy
 - Current world is far from free trade area $\Rightarrow$ governments tend to promote through trade their own interests
 - Greater negotiating power in multilateral GATT/WTO negotiations and bilateral agreements
 - Trade deflection caused by different trade instruments damages integrity and fair competition in internal market
 - Positive influence on terms of trade ($TT = P_{EX}/P_{IM}$)
- Heterogeneity of trade interests
 - Diverse geographical location
 - Historical and cultural proximity of trade partners
 - Colonial heritage
- Origins of common trade policy
 - One of the founding policies based on Rome Treaty (common external tariff, common trade agreements with third countries)

Organisation of common trade policy

■ European Commission

- Mandate to negotiate trade agreements with third countries on behalf of member states (MSs in position of observers)
- Mandate to enforce active agreements

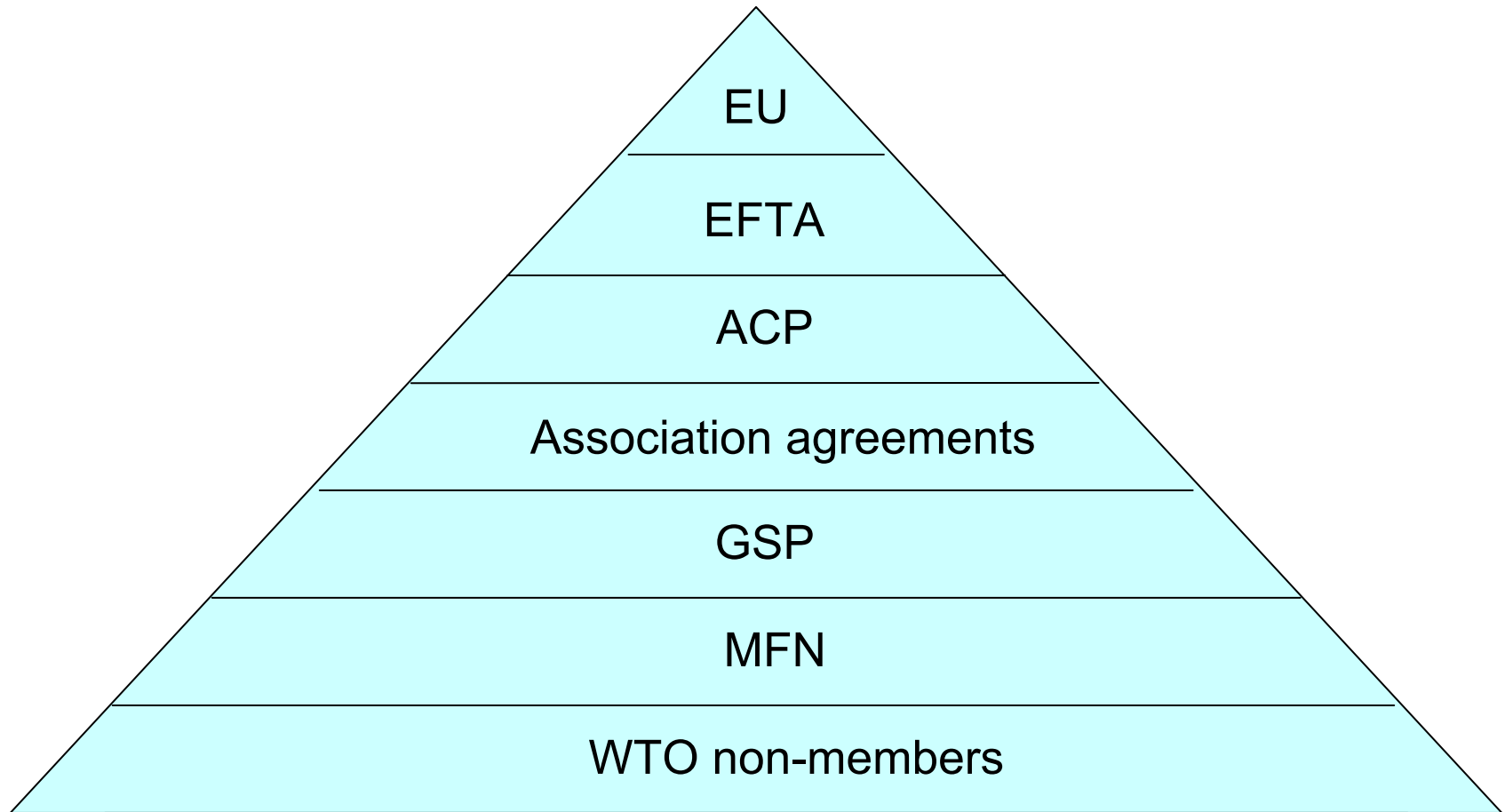
■ Council of Ministers

- Approves directives for negotiations
- Approves or rejects negotiated agreements (QMV principle)

■ Competence complications

- Rome Treaty gave EC powers only in goods trade
- Clumsy position in WTO rounds dealing with broader array of trade issues
- Amsterdam, Nice: further areas covered by common trade policy (services, intellectual property, etc.)
- Principle of parallelism: unanimity required where EC law on internal market also requires unanimity (e.g. immigration policy)

Preferential pyramid in EU trade relations



European Free Trade Association (EFTA)

■ Origins of EFTA

- ❑ Signed in July 1959 (so-called Stockholm Convention), active since May 1960 (dominant initiative of UK)
- ❑ Founding members: Austria, Denmark, Norway, Portugal, Sweden, Switzerland, United Kingdom (1961 Finland, 1970 Iceland)
- ❑ Established as FTA integration grouping (discouraged by far-reaching integration ambitions of EEC)

■ Economic rivalry between EC and EFTA

- ❑ 1961: UK applies for membership of EEC (shock for “Eftans”)
- ❑ Domino effect: Applications of Denmark, Norway and Ireland (strong ties with UK)
- ❑ January 1973: First EEC enlargement (Denmark and UK leave EFTA, Norway remains in EFTA after referendum)
- ❑ Remaining EFTA members negotiated bilateral agreements on free trade (active since EEC enlargement)

European Economic Area (EEA)

- European Economic Area (EEA)
 - Signed in May 1992, active since January 1994
 - Some EFTA members understood EEA as waiting room for full EC membership (applications from Austria, Finland, Norway, Sweden, Switzerland)
 - January 1995: Fourth enlargement (Austria, Finland and Sweden leave EFTA, Norway stays in EFTA after referendum)
 - Switzerland rejects EEA in referendum (application for EC membership shelved)
 - Current EFTA members: Iceland, Liechtenstein, Norway and Switzerland (non EEA member, special treaty with EU)
- General features of EEA
 - Access of EFTA to EU markets in exchange for complying with internal market legislation (some exceptions from general rule)
 - Strong limits on shaping EU legislation (despite high degree of homogeneity)
 - Non-participation in common policies: CAP (even higher support in Norway and Switzerland), CET (higher level of protection in EU)
 - Traditional EFTA trade policy to shadow EU trade agreements
- Approx. 10% share in EU imports and exports

ACP countries (1)

- ACP = Africa, Caribbean, Pacific
 - Approx. 80 countries with preferential development assistance
 - Colonial heritage of EU founding members (except Luxembourg)
- Rome Treaty
 - Treatment of “special countries” was one of the most difficult chapters (exclusion of former colonies from reach of CET, participation of Germany in development aid, etc.)
 - Creation of *European Development Fund* (financing social and economic infrastructure project, contributions according given quotas)
- Forms of assistance
 - Granting unilateral favours (tariff-free imports of industrial products, guaranteed prices of tropical products, etc.);
 - Development aid
 - Stabilisation funds for export earnings

ACP countries (2)

- Yaoundé Conventions (Cameroon, I: 1964-1969, II: 1969-1975)
 - Agreement concluded predominantly with former French colonies (18 sub-Saharan African states, Madagascar)
 - Criticised for discriminating approach to developing countries
- Lomé Agreements (Togo; I: 1976-1980, II: 1980-1985, III: 1985-1990, IV: 1990-2000)
 - Inclusion of former British colonies among “special countries”; steady expansion up to 70 ACP states with special development aid regime
- Cotonou Agreement (Fiji, 2000-2007)
 - Complex agreement replacing former Lomé Agreements (introduction of reciprocity)

Efficiency of EU development policies

■ Criticism

- ❑ Exemptions for agricultural products which compete directly with production of EU farmers (sugar) or products which may result from industrialisation of developing countries
- ❑ Given generally low tariff protection due to WTO rules the abolition of tariffs need not bring larger benefits (quotas on imports into EU or subsidised exports from EU are more harmful)
- ❑ Granted favours may freeze non-competitive market structures, causing declining share in trade with ACP countries (contrast with developing Asian countries)

■ Past practice

- ❑ Promotion of bilateral trade
- ❑ Trade measures limited to tariff reduction

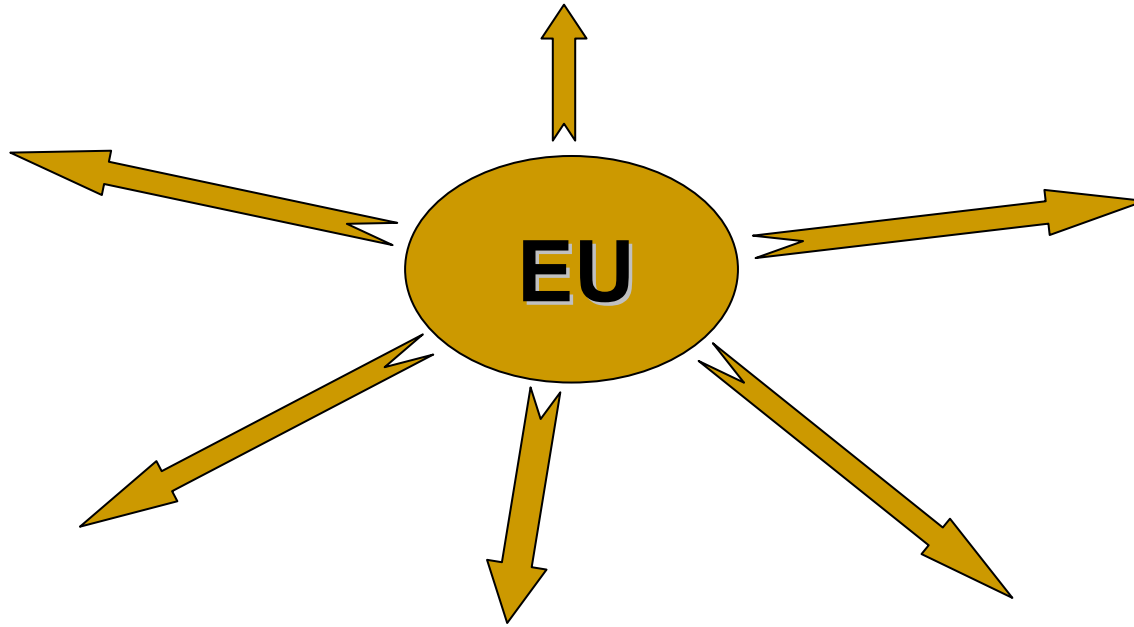
■ Current practice

- ❑ Strengthening regional economic integration
- ❑ Elimination of all barriers to trade

Association treaties

- Association (European) treaties with transition economies as potential candidates for EU membership
 - Asymmetric removal of trade restrictions (unilateral abolition of quotas, two-speed approach to lowering of tariffs, etc.)
 - More cautious liberalisation for sensitive commodities (steel, textiles, chemical products, farm products, etc.)
 - Possibility of reintroducing transitory protection measures (serious damage to EU producers, problems in depressed industries, etc.)
- Association treaties with Mediterranean countries (*Euro-Med Association Agreements*, Med-10)
 - Separate agreements with Mediterranean African and Asian countries on FTA formation (Morocco, Algeria, Tunisia, Egypt, Israel, Palestine, Lebanon, Jordan, Syria)
 - Asymmetric commitment to lift tariff barriers
 - Special status of Turkey: talks initiated on prospective EU membership, unilateral adoption of CET (shadow member of EU trade union with exception of agriculture)
 - Many features beyond pure FTA (technical assistance, liberalisation of services, foreign direct investment regime, etc.)

Hub-and-spoke integration model



- Conclusion of bilateral agreements between hub, or centre (= EU), and spokes (= individual countries), extreme variability in trade details
- Substantial asymmetry in negotiating power (decisive importance of hub for spokes but negligible importance of individual spokes for hub)
- Common trade restrictions among spokes

General System of Preferences (GSP)

■ Characteristics of GSP programmes

- ❑ Agreed exception from general WTO rules under which industrialised countries would grant preferences to developing countries (violation of non-discriminating MFN clause)
- ❑ GSP is not unique system, it consists of substantially individualised and tailor-made programmes offered by developed countries
- ❑ Assistance granted via non-tariff imports (up to certain amount), lower tariffs on all industrial products or selected agricultural products, development finance
- ❑ Attractiveness of GSP systems lowered by low general level of tariffs and insufficient industrial base of developing countries (employable for granting GSP)

■ GSP of European Union

- ❑ Oriented towards poorest countries (applied to approx. 180 countries)
- ❑ Compliance with non-economic criteria (respect for labour and human rights, environmental protection, fighting drugs trafficking, etc.)
- ❑ Special arrangements with poorest countries (*Everything But Arms*)
- ❑ Criticised for insufficient and hypocritical development aid

Other agreements

- **Stabilisation and Association Agreements (SAA)**
 - Concluded with former Yugoslavian countries and Albania
 - Possible step towards future EU membership
- **Partnership and Cooperation Agreements (PCA)**
 - Concluded with former Soviet Union countries (Russia, Ukraine, Moldova)
 - Aims: political dialogue, cooperation in legislation, culture, science, peace and security, etc.
- **Strategy Paper for Central Asia**
- **European Neighbourhood Policy**
 - Relations between enlarged EU and its Eastern and Southern neighbours
 - Aims: prevention of new dividing lines, enhance security, creation of pan-European integrated market based on rules similar to those of EU

MFN – United States

- Most important trade partner (approx. 18% of imports, 25% of exports)
 - Trade relations regulated by general rules of WTO (MFN)
 - No preferential agreement exists
 - Unilateralism of US trade policy (inclination towards bilateral arrangements over multilateral rules)
- Trade disputes
 - EU banana regime in favour of ECP countries
 - Food safety (more liberal US approach to genetically modified organisms)
 - US public procurements
 - US trade defence instruments (anti-dumping)
 - EU protection of trademarks and geographical indications
- Unilateralism versus multilateralism
 - Extra-territorial application of US domestic legislation (unilateral sanctions)
 - Undermined authority for multilateral settlement disputes