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*Regionalisation of the European Union's Trade Policy in 1990–2017*

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Regionalizacja zagranicznej polityki handlowej Unii Europejskiej w latach 1990–2017

**Keywords:** trade policy; preferential trade agreements; liberalisation

**Słowa kluczowe:** polityka handlowa; preferencyjne porozumienia handlowe; liberalizacja

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## **Introduction**

The development of the multilateral trade system after the Second World War was accompanied by the signing of bilateral and regional trade agreements by various countries – the so-called preferential trade agreements (PTAs). An initial indication of such a trend was the establishment of the European Economic Community in 1957, which resulted in an intense increase in intra-trade between six member states [Mucha-Leszko, 2005]. This process was particularly intense at the beginning of the 21<sup>st</sup> century with the decline in the importance of trade policy created globally. It can be observed that at that time, the United States and the European Union pursued

competitive commercial policy strategies. The US began a tendency towards liberalisation under preferential (bilateral and regional) agreements, and the European Union attempted the reconciliation of multilateralism with regionalism [Mucha-Leszko, 2014]. However, in recent years, this situation has changed and the EU has started to negotiate preferential agreements with greater intensity in the hope of strengthening its weakening position in the global economy and gaining better access to new markets [Mucha-Leszko, Twarowska, 2016].

The aim of the paper is to show how the European Union's approach to concluding preferential trade arrangements changed in the analysed period of 1990–2017. The analysis involves the reasons for the EU's increased interest in regionalisation and the development of preferential links with partners in various regions of the world, including selected key trade agreements.

### **1. The EU's approach to preferential trade liberalisation – reasons for the change in policy towards PTAs**

The reasons for concluding preferential trade agreements may be political (maintaining relations with other countries, ensuring security) or economic, and they may aim at neutralising the potential negative effects of agreements concluded by third countries, building strategic links with countries with high economic growth or ensuring a wider application of international trade regulations [Woolcock, 2007].

The motives for the EU signing trade agreements can be divided into four categories: (1) agreements with neighbouring countries, with the ultimate goal often being future EU membership or some other form of close relationship; (2) agreements aimed at ensuring stability around EU borders; (3) contracts resulting from historical (colonial) relationships with small, underdeveloped African, Caribbean and Pacific (ACP) countries; (4) contracts signed to neutralise the adverse effects of preferential agreements signed by third countries on EU exports and investments [Ahearn, 2011].

The European Union started signing preferential trade agreements in the 1970s, mainly as a form of regulating economic relations with former colonies [Eckhardt, Elsig, 2015]. The second period of intensification of signing trade agreements was the beginning of the 1990s, when they became a tool for building trade relations with the countries of Central and Eastern Europe and the Mediterranean, and for extending the functioning of the common market to the EFTA countries. Each negotiated contract involved specific motives of both a political and an economic nature. In contrast to the United States, the European Union did not have a normalised pattern or contract scheme [Duch T-Figueras, 2013].

Political motives were, to a large extent, guided by the so-called "Europe Agreements" concluded with the countries of Central and Eastern Europe after the collapse of the Soviet Union, as well as agreements with the ACP countries. The PTAs signed by the EU up to the 1990s generally had a political basis, often resulting from the

need to ensure security. The economic goals were to be achieved through multilateral negotiations within the General Agreement on Tariffs and Trade (GATT) forum or, later on, the World Trade Organization (WTO) [Woolcock, 2014].

At the end of the 1990s, the EU introduced a moratorium on negotiating new trade agreements. The reason was the forthcoming biggest enlargement of the EU, by a further 10 countries, planned for 2004. The EU trade policy prioritised the new round of multilateral negotiations within the World Trade Organization – the so-called Doha Development Agenda (DDA) – launched in 2001 [Nacewska-Twardowska, 2014]. During the moratorium, negotiations which began in the 1990s were continued, including with ACP and Mediterranean countries. However, the EU did not initiate new negotiations, maintaining the position that the focus should be on making progress at the multilateral level. The agreements signed at that time with Mexico (2000) and Chile (2003) aimed at limiting the harmful effects of agreements signed and negotiated by the United States [Woolcock, 2014]. Despite the moratorium on new trade agreements, previously signed agreements meant that European Union trade under the terms of the Most-Favored Nation rule was carried out only with 10 WTO member countries/territories (Australia, Canada, Taiwan, Hong Kong, China, Japan, Korea, New Zealand, Singapore and the United States). In 2009, their share accounted for 43.9% of EU merchandise imports [Ahearn, 2011].

The EU approach changed in 2006 when the European Commission issued a communication titled “Global Europe: Competing in the World”, which initiated a new generation of preferential trade agreements. The first such agreement was signed with the Republic of Korea in 2010 [Deese, 2016]. The change in approach was mainly due to external factors. Internal reasons, such as changes in the Directorate-General for Trade or pressure from European entrepreneurs to gain more favourable access to Asian markets, were of less importance [Woolcock, 2014].

The first impulse to change the EU position followed the change in the US approach to trade liberalisation. Ideas of the so-called competitive liberalisation – i.e. progress in the liberalisation of markets by means of various routes, not only at the multilateral level – have appeared since the mid-1990s [Bergsten, 1996], but the real possibility of developing PTAs was given by granting the administration of President George W. Bush the power to negotiate bilateral agreements in 2001. This was reflected in the EU starting negotiations with Korea and other Asian countries (following the US talks).

The second motive for changing the EU position was the increased importance of emerging markets. This was mostly related to China, but also to Brazil, India and several other Asian countries (e.g. Malaysia and Indonesia) [Heydon, Woolcock, 2009]. The third reason was the increasingly marked deadlock in the WTO negotiations of the DDA, which, according to the original assumptions, were to end in 2005. Meanwhile, in July 2006, the negotiations were suspended, and a quick agreement seemed unlikely [Wojtas, 2016]. Under the new circumstances and the shift in the balance of power, plus the context of the active implementation of the strategy of

competitive liberalisation by the US, it was impossible to shape multilateral policy in a manner such as before – that is, through negotiations on the EU–US line. The European Union remained lonely in pursuit of progress in the negotiations of the DDA. However, the EU’s leadership was not sufficiently strong to leverage WTO members into reaching an agreement. Another factor that affected the EU trade policy towards PTAs was the desire to broaden the scope of trade rules and deepen liberalisation, taking into account issues that were not subject to multilateral negotiations, such as safety and environmental protection, competition rules and investment [Woolcock, 2014].

An increased importance of economic motives in the negotiations of the so-called “new generation” of EU trade agreements can be observed after 2006. The trading partners with whom the negotiations were conducted were definitely more important in the EU’s foreign trade. The agreements aimed to shape trade rules and facilitate entry to new markets earlier than competitors. As noted by Garcia [2013], the EU’s perspective on trade agreements has evolved from a more idealistic approach, based on striving to expand regional integration or promoting economic development, to a more realistic approach, motivated by willingness to secure its position and strengthen the competitiveness of the EU market in the global economy.

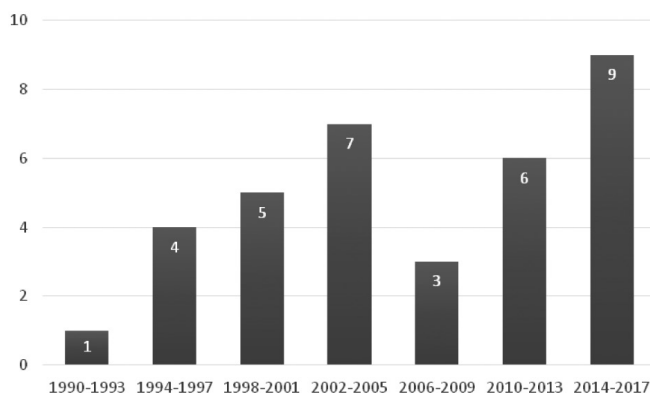


Figure 1. The number of trade agreements concluded by the EU

Source: Authors’ own compilation based on the WTO [2018].

According to the WTO database (from 5 August 2018), in the years 1990–2017, the European Union notified the signing of 35 preferential trade agreements. Three were related to a customs union (Andorra, Turkey and San Marino), while the remaining were related to free trade zones [WTO, 2018]. Their distribution over time in the analysed period is shown in Figure 1. The EU’s statistics also include the Stabilisation and Association Agreement with Kosovo, which entered into force in 2016, but the WTO was not notified [EC, 2018a].

There is a constant increase in the number of agreements the EU signed in the last decade of the 20<sup>th</sup> century and the beginning of the 21<sup>st</sup> century. After a drop in the years 2006–2009, which was related to the financial crisis, there was a renewed increase in the number of completed deals. The peak was in 2014–2017, when nine PTAs were concluded. The majority of preferential trade agreements were signed with countries of Europe and Africa – they constitute approximately 64% of agreements concluded in the analysed period (Figure 2).

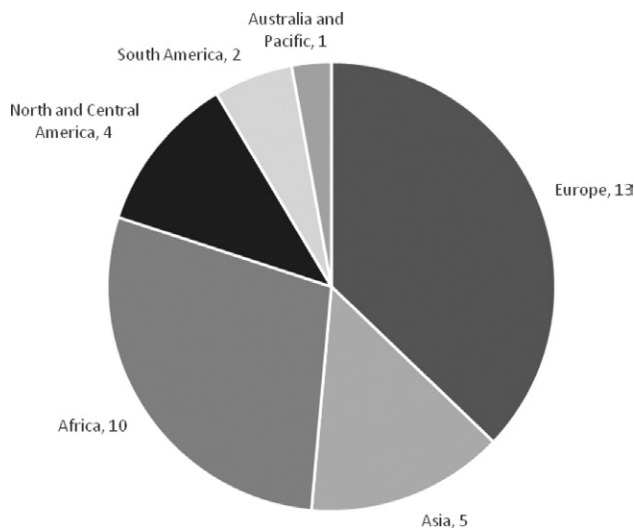


Figure 2. Geographical distribution of EU trade agreements in 1990–2017

Source: Authors' own compilation based on the WTO [2018].

## 2. Agreements with Asian countries

Before 2006, Asian countries were not an important part of the bilateral trade negotiations with the EU despite their growing role in the world economy. However, the first agreement signed as a result of the Global Europe strategy was with the Republic of Korea, which entered into force on July 1, 2011, when the majority of import duties were abolished. Other duties, except for a few agricultural products, were removed by July 1, 2016. The agreement contains provisions that go beyond the issues that are the subject of WTO negotiations. These include abolition of duties on most products, liberalisation of services trade, investment, public procurement, competition rules, intellectual property rights and sustainable development. Amongst other things, the agreement prevents the creation of non-tariff barriers in particularly sensitive sectors, such as the automotive, pharmaceutical and service industries, and allows European shipping and financial companies access to the Korean market [Pasierbiak, 2013a]. In 2011, the European Union was the third largest export partner

for Korea, and Korea was ranked 10<sup>th</sup> as a market for EU goods [Pasierbiak, 2013b]. After the implementation of the agreement, EU exports to Korea increased by 59% in the period 2010–2016. There was also a 49% increase in the exports of services (2010–2015), and a 33% increase in the stock of the European Union's foreign direct investments in Korea (2010–2015). At the same time, Korean investments in the EU increased by 59% [EC, 2018a].

The association agreement with Georgia was signed on June 27, 2014. It has the character of a free trade zone and includes both goods and services. It expects the abolition of all barriers to trade in goods, and wide mutual access to the services market. Georgia has also made commitments regarding changes to legislation, including in the field of human rights and democracy, as well as obtaining visa-free access to the EU for its citizens [EC, 2018a].

The negotiating process is nearing completion for three contracts that in the coming years will surely drive the development of trade between the EU and Japan, Singapore and Vietnam. The agreement with Japan was signed in December 2017. After entering into force, it will be one of the largest free trade areas in the world. It is also proof that both the EU and Japan reject protectionism and are supporters of trade liberalisation policy, in contrast to the recent global tendency towards isolationism [Wojtas, 2018]. Japan is the EU's second largest market in Asia (after China). The agreement is expected to eliminate barriers to trade in manufacturing and agricultural products, as well as removing regulatory barriers and allowing better access to mutual services markets. It also contains provisions on environmental protection, safety, consumer protection, labour standards and mutual recognition of data protection systems. It is anticipated that the deal will enter into force in February 2019 [EC, 2018a].

Negotiations with ASEAN (Association of South-East Asian Nations) countries, which were started in 2007, did not bring the expected results, so it was decided to start bilateral talks with individual member countries. In 2018, talks with Singapore and Vietnam were completed. The agreement with Singapore – the largest trading partner of the EU among the ASEAN countries – was signed in October 2018. It consists of two parts: a commercial agreement and an investment agreement. The subject of the contract is the elimination of tariffs and technical barriers, which particularly concern the following sectors: electronics, automotive industry, and pharmaceutical industry. It also contains provisions regarding the protection of intellectual property laws and environmental protection [EC, 2018a].

The agreement with Vietnam is also being finalised – on June 25, 2018, the content of the agreement was approved, and the next step is to prepare a translation into the national languages and submit it to the EU Council. The agreement with Vietnam includes the elimination of tariffs, but also concerns non-tariff barriers, services and intellectual property rights. The two agreements may be the first step towards a gradual building of a broader agreement covering all ASEAN countries. Bilateral talks with other ASEAN members, including Malaysia, Indonesia and Thailand, are

also in progress. The EU has also been negotiating with India since 2007. Attempts to enter into negotiations with China on a trade agreement have failed, and negotiations on an investment agreement are ongoing [EC, 2018a].

### 3. Agreements with North American countries

The longest-functioning agreement between the European Union and the countries of North America is the free trade agreement with Mexico. It came into force in 2000 for goods, and a year later – for services. In the years 2006–2017, it contributed to a doubling of trade flows between partners – the value of EU merchandise exports increased from EUR 19.1 billion to EUR 37.9 billion, while the value of imports increased from EUR 10.6 billion to EUR 23.9 billion. Thanks to this, the European Union has become the second largest export and third import market for Mexico. From the EU perspective, in both categories, Mexico was not one of the top 10 partners, with a share of 2% in exports and 1.3% in imports [Eurostat, 2018].

In 2008, the European Union concluded the Economic Partnership Agreement with the CARIFORUM countries, for which the EU is the second most important trading partner. A year later, Haiti joined the agreement, but it has not yet ratified it, which means that the contract is only partially applied. The agreement did not have a major impact on the development of trade between the blocks. In the period 2008–2017, EU exports to Caribbean countries (including Cuba) increased from EUR 5.75 billion to EUR 7.22 billion. The situation with imports was different, dropping from EUR 6.03 billion in 2008 to EUR 4.03 billion in 2017, but periodic increases were observed. These trends resulted in a significant change in the trade balance of the European Union – the initial deficit of EUR 280 million turned into a surplus of EUR 3.19 billion [Eurostat, 2018].

The most recent agreement with the region of North America, which came into force in September 2017, is the Comprehensive Economic and Trade Agreement (CETA) with Canada. It is difficult to determine its impact on the development of trade relations. At the time of signing it was the largest PTA in terms of partners' GDP. The European Union is Canada's second largest trading partner. EU exports to Canada in 2017 amounted to EUR 37.75 billion. Since 2007, this has increased by EUR 12.37 billion. In the same period, the value of imports also increased – from EUR 24.24 billion to EUR 31.44 billion. The EU trade balance improved – the deficit from 2011 (EUR 839 million) changed to a surplus of EUR 6.11 billion [Eurostat, 2018]. According to the forecasts of the Directorate-General for Trade, as a result of the abolition of 98% of tariffs, CETA is expected to contribute to an 8% annual increase in trade [EC, 2017].

The European Union also attempted to negotiate an agreement with the United States. The Transatlantic Trade and Investment Partnership (TTIP) included the creation of a free trade area. In 2017, the value of bilateral trade in goods amounted

to EUR 632 billion, and trade in services in 2016 reached EUR 437.3 billion [Eurostat, 2018]. The talks started in 2013, and during the next three years, there were 15 negotiation rounds. From its outset, the agreement aroused much controversy due to the lack of transparency of the content. Other points of issue included investors' protection and a dispute resolution system on the investor–state line, environmental protection and labour standards [EC, 2018b]. In 2016, the negotiations were suspended due to a change in the US trade policy under the leadership of President Donald Trump, aiming to revise the existing agreements considered to have adverse effects on the US economy. Taking the significant trade deficit with the European Union into account, there is little indication that the negotiations will start again.

#### 4. Agreements with the countries of South America

Negotiations on preferential trade agreements with the countries of South America have a longer history despite the fact that the region's position in EU trade was much less prominent than that of Asia. However, talks proved to be very difficult. The first successfully signed deal, with Chile in 2002, envisages the elimination of barriers to trade in goods, and the protection of EU intellectual property rights in this country. Since it came into force, exports of EU goods to Chile have increased by 170% and imports from Chile have increased by 50%. In 2017, negotiations were started to modernise this agreement [EC, 2018a].

Talks with the countries of the Andean Group met a similar fate as the ASEAN negotiations, and the lack of progress with the entire group led to the undertaking of trade talks with individual countries. This resulted in the signing of an agreement with Peru and Colombia in June 2012. In 2016, Ecuador joined the agreement. The deal envisages, *inter alia*, gradual elimination of tariffs and other barriers, improvement of access to services and public procurement markets, and protection of intellectual property rights. The only country in the group that still remains outside the agreement is Bolivia [EC, 2018a].

The most problematic talks in the region concern the largest group of South America – MERCOSUR (Brazil, Argentina, Paraguay and Uruguay). Talks began in 1995 as a counter-offer to US plans to create a Free Trade Area of the Americas, which was to include both American continents. Since then, the talks have broken down and resumed several times. The last round of negotiations took place at the beginning of 2018. A particular problem in these conversations involved trade in agricultural products and the opening of the services market. Despite the will to undertake further negotiations, the steps towards imposing new barriers are more visible in practice – for example, Brazil was one of the countries using the most new barriers to the EU in 2015–2016 [Białowas, Wojtas, 2017].

## Conclusions

The deadlock in the DDA negotiations has given rise to the so-called “third wave” of regionalisation. Commitment to preferential trade negotiations has covered most of the world. Initially, the European Union took the position that liberalisation at the multi-lateral level should be the priority. Ultimately, in 2006, the new strategy of the common trade policy changed this direction. The European Union has signed 35 agreements in the form of free trade areas or customs unions, and more are under negotiation. This is reflected in the types of countries to which the “new generation” of negotiations pertain. This does not represent a big change, as the EU has signed plenty of bilateral agreements before, while being a key player in multilateral trade talks. The strategy of combining multilateralism with regionalism had indeed been a characteristic of its external trade relations. Even during the moratorium years of favouring the multilateral approach, the EU continued to negotiate bilateral agreements (those negotiations that had been started beforehand). However, EU economic interests were served by multilateral agreements, while non-economic ones were achieved through bilateral talks [Garcia-Duran et al., 2016]. The actual economic effects of the signed PTAs are currently difficult to estimate – some are still in the early stages of implementation. As discussed, the agreement with Korea is considered to have had a positive impact of bilateral EU–Korea trade flows and investment. The “new generation” agreements contain elements that go beyond matters being negotiated at the WTO forum, taking trade liberalisation to another level. However, it was not possible to conclude agreements with many important trading partners, such as India. The attempts to conclude interregional agreements – with ASEAN or MERCOSUR countries, or signing the so-called mega-regional agreements covering a major part of global trade, such as the agreement with the United States or the Trans-Pacific Partnership – have failed.

Despite the change in the US approach to trade policy, which is more inclined towards protectionism, the European Union seems to be following the policy of liberalising trade in goods and services, as well as increasing investment flows. This can be supported especially by the recently signed agreement with Japan or Singapore, but also the initiation of new trade talks with Australia and New Zealand in 2018.

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### **Regionalizacja zagranicznej polityki handlowej Unii Europejskiej w latach 1990–2017**

Regionalizacja polityki handlowej to coraz powszechniejszy trend w XXI w. Unia Europejska pierwsze umowy handlowe zawarła już w latach 70. XX w., jednak pod koniec lat 90. XX w. stosowała swoiste moratorium na tego typu porozumienia. Po 2005 r. ta polityka została zmieniona, a UE jest sygnatariuszem 35 porozumień o charakterze strefy wolnego handlu lub unii celnej. Celem opracowania było pokazanie, jak zmieniło się podejście Unii Europejskiej do zawierania preferencyjnych układów handlowych w analizowanym okresie (1990–2017). Przedstawiono przyczyny wzrostu zainteresowania UE regionalizacją oraz opisano rozwój powiązań regionalnych z partnerami w różnych regionach świata, w tym wybrane najważniejsze umowy handlowe.

### **Regionalisation of the European Union's Trade Policy in 1990–2017**

Regionalisation of trade policy is an increasingly common trend in the 21<sup>st</sup> century. The European Union concluded its first trade agreements in the 1970s, but at the end of the 1990s, it applied a *de facto* moratorium on such agreements. In 2005, this policy was changed, and the EU is a signatory to 35 agreements – creating either a free trade area or a customs union. The aim of the paper was to show how the European Union's approach to concluding preferential trade agreements changed over the period of 1990–2017. The reasons for the EU's increased interest in regionalisation and the development of regional links with partners in various regions of the world were presented, including selected key trade agreements.