

EU's New FTA Strategy: A Response to the Transformation of World Economy and Its Implications

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***Abstract:** Since the EU published the Communication of “Global Europe: Competing in the world” in 2006, EU’s practice in free trade agreements (FTAs) has been a remarkable phenomenon. It does not only involve the EU’s trade preferences, but it also has some impacts on the development of international trade rules and international trade order. The main purpose of the EU’s new FTAs is to maintain and further enhance the EU’s competitiveness and to gain more from the world economic growth. To achieve this objective, the EU has been trying to get involved multiple strategies. It should be noticed that the EU’s FTAs strategy and practice do not only have impacts on the EU itself, but also, inevitably, they have some geopolitical implications. Although it is understandable that the EU is trying to pursue its own objectives by negotiating new FTAs, it cannot be neglected the potential negative effects of the EU’s FTA strategy on the development of world economy.*

***Keywords:** European Union, trade, FTA, world economy, strategy*

1. Introduction

Since the EU published the Communication of “Global Europe: Competing in the world” (European Commission, 2006), EU’s practice in free trade agreements (FTAs), became a topic for a number of discussions and analyses. Obviously, from the objectives to the content, all new FTAs (concluded or under negotiation) are dramatically different from the old ones; therefore they are called “New Generation of FTAs”. In practice, the new FTAs will involve not only the EU’s trade preferences, but also they will impact on the developments of international trade rules and international trade order.

2. The change of EU trade policies’ objectives

2.1. From free trade to fair trade: the general transformation of trade policy

After the World War II, international trade and investment have played a pivotal role in economic development and growth. In the trade policy area, there has been always a kind of battle between free trade and protectionism, but until the early 1990s, liberalization has been the major trend (Sally, 2008, p.50), supported by western countries, especially the US, as key promoters of trade liberalization. Although there were some differences in trade policies between the EU/EC and the US, for example the EC concluded many preferential trade agreements with its former colonies, in general, the EU/EC was a supporter of free trade.

Free trade contributed a lot to the world economic growth. According to OECD insights, over the 1950-1973 period, world trade rose by nearly 8% a year, while the world economy registered the fastest growth (Love & Lattimore, 2009, p.13). Various country studies, conducted either by OECD, the National Bureau of Economic Research or the World Bank, suggest that, during the 1970s and the 1980s, countries with more

liberal trade policies grew faster than those with more restrictive policies (Sally, 2008, p.55). 1980s and early 1990s saw a wave of fast trade liberalization. But it seems that things have changed since the mid-1990s. On the one hand, many countries have become more cautious about further trade liberalization; on the other hand, the meaning and scope of trade liberalization have altered, and more factors other than custom duties and quantitative restrictions have been taken into account in the design of trade policies and rules. The countries advocating for free trade, like the US and the EU, put more and more emphasis on fair trade rather than free trade. Surely, there are many reasons for this change. The most important reason might be related to their concern regarding the increasing competitiveness of developing countries' exports. Just as it has been pointed out by Shumpeter, trade expansion would bring economic competition, which would produce winners and losers in the marketplace (Hanson, 2010, p.4). Before 1990s, western countries had dominant exporting power and they were winners of trade liberalization and could benefit more than other countries. They had strong motivation to push forward liberalization of world trade. But with the economic advancement, developing countries, especially emerging economies, became powerful economic competitors of developed countries on international markets. To maintain their interests in trade, the western countries have been trying to add more elements in which they have advantages to trade, other than duties and quotas.

2.2. The objectives of EU FTAs before 2006

All these changes also reflected in the EU's trade policies and its FTA strategies.

Traditionally, FTA was a trade policy with low customs duties and high level liberalization of trade and FTAs were applied to urge other countries to reduce customs duties and other trade barriers.

The EU has been one of the main users of FTAs. The EU itself began with the common market based on free trade and customs union. However, before early 1990s the EU used the FTA instrument in a different way from the US, the latter paying more attention to free trade itself, and compared to the EU, using preferential FTAs to pursuit more policy goals . The EU signed various FTAs, under different names in different situations, for example, the European Agreement with Eastern European countries, the Stabilization and Association Agreements with Balkan countries, the EEA with non-EU Western and Northern European countries, etc. Between early 1990s and 2006, the EU continued practicing FTAs to pursuit multiple policy goals and tried to prompt trade liberalization by multilateral platform, the WTO.

Various EU FTAs have different goals, requirements and content. In general, it can be said that the EU's main purpose of the FTAs was not the liberalization of trade itself, nor the economic benefit of trade, but to realize some political objectives by trade and economic instruments. Because of the differences between FTA partners, the political objectives of EU's FTAs were different:

- 1) For candidate countries, in order to get the EU membership, EU can apply conditionalities and exert great influences on the political, economic and legal reform of these countries.
- 2) For non-EEA and non-candidate European countries, the EU is a large and attractive market, and a significant provider of international aid. These countries expect some preferential treatment from the EU. At the same time, since stability and prosperity of neighbouring countries are critical to the EU security, the EU has been trying to help their transformation in line with EU standards, using various Neighbourhood policies, including trade policy.
- 3) For the ACP (African, Caribbean and Pacific group of states) countries, because of historic connections, the EU provided not only preferential trade arrangements, but it also tried to export its institutions and values. The ACP regions represented a platform for the EU to pursuit its goals of external policy

embedded in Article 21(1) of the Treaty on European Union, which provides that “The Union's action on the international scene shall be guided by the principles which have inspired its own creation, development and enlargement, and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law.”

Apart from the above-mentioned FTAs, the EU signed just a few FTAs with other countries during this period, and had no FTAs with its major trade partners, such as the US, China, Japan, ASEAN, etc. The purpose of several FTAs was to offset the possible negative impacts of the US FTAs with some countries. For example, after the signing of NAFTA, the EU negotiated a FTA with Mexico.

But after 2006, the EU became more interested in FTAs with its main trade partners. What happened and what for?

2.3. The Objectives of EU New Generation FTAs

The objectives of the EU new generation FTAs are reflected in two communications: “Global Europe” (2006) and “Trade Growth and World Affairs” (2010).

2.3.1. “Global Europe” and the objectives of EU new generation FTAs

Although EU new FTAs are trying to spread the EU-advocated rules of international trade and investment, the momentum is derived from the EU’s objectives of trade policy. “Global Europe” it points out that “The purpose of this Communication is to set out the contribution of trade policy to stimulating growth and creating jobs in Europe. It sets out how, in a rapidly changing global economy, we can build a more comprehensive, integrated and forward-looking external trade policy that makes a stronger contribution to Europe's competitiveness” (European Commission, 2006, p.2). It manifests the differences between the new and old FTAs. The core of the EU trade policy is about economy, but not traditional political or security objectives.

The EU new FTA strategy is based on EU’s understanding of the current situation and trend of international trade as well as the EU’s strength. The communication of “Global Europe” mentions “the need to adapt the tools of EU trade policy to new challenges, to engage new partners, to ensure Europe remains open to the world and other markets open to us.” (European Commission, 2006, p.2). The EU recognizes that the changing global economic order has great significance for the world economy and international relations. Globalization is creating unprecedented opportunities for growth and development, but at the same time, it brings, to all countries, new pressures and challenges. Many countries are seizing the opportunities of globalization and become more and more competitive in the world economy and international trade. Under this circumstances, the EU is trying to develop new trade policy to adapt to a changing world, maintain its competitiveness and get more benefits from globalization. How to acquire and maintain its competitiveness? The best way is to use its comparative advantages. “Global Europe” identifies that the European economic advantages consist in “knowledge, innovation, intellectual property, services and the efficient use of resources”, that is why the EU new trade policy and FTAs approach put emphasis on this aspects.

Looking at the content of “Global Europe”, one could say that EU new FTAs would be negotiated on the basis of pragmatism, such as ‘economic factors would play a primary role in the choice of EU’s future FTAs’ (European Commission, 2006, p.11). Apparently, the emphasis of the EU new FTAs are dramatically

different from the previous ones, which put much emphasis on non-economic issues. It is viewed as a kind of triumph of business interests over the political ones (Siles-Brugge, 2013, pp.597-617). But this pragmatic approach was criticized, and the 2010 communication of the EC “Trade, Growth and World Affairs”, hereafter “TGW”, swayed back a little toward political and non-economic considerations, while economic interests are kept in the centre.

2.3.2. “Trade, Growth and World Affairs” (TGW) and the objectives of new FTAs

The 2010 TGW reiterates the significance of trade to European Union. It confirms that the primacy goal of economic policy is to realize rapid economic growth, to create jobs and to maintain welfare state. Once again, it puts emphasis on negotiating competitive FTAs. But while keeping economic interests at the core, TGW also requires that trade and trade policy should reinforce the EU’s international influence, and emphasizes the mutual reinforcing of trade and foreign policies.

2.3.3. Substance of the objectives of EU new generation FTAs

Although there are some adjustments of the objectives of FTAs in 2010 TGW, on the whole, the kernel of EU new generation FTAs is to establish new trade rules to give full play to European competitive advantages, and reinforce the EU’s competitiveness, so that the EU can get more benefit from international trade and international economic growth.

3. EU’s Strategies to attain the objectives of new FTAs

From the negotiated FTAs such as EU-Korea FTA, EU-Canada FTA, etc., it can be noted that new FTA includes trade in goods (customs duties, NTBs, and others), trade in services (market access), intellectual property rights, sustainable clauses, competition, public procurement, and political clauses, etc. In many respects, the new FTAs have made great progress and some breakthroughs which are helpful for the EU to enhance its competitiveness and obtain more economic benefits. How did the EU succeed to realize its FTAs objectives? Four strategies are remarkable.

3.1. Pivoting to EU’s comparative advantages

EU has tried to include its comparative advantages in the new FTAs. Just as mentioned above, the EU’s comparative advantages at this moment consist in “knowledge, innovation, intellectual property, services and the efficient use of resources”, therefore, the EU has made great efforts to make some progress in these aspects so that its comparative advantages can be translated into its benefits.

Firstly, although trade in goods is still an important negotiating area, trade in services plays a more important role in the new FTAs. As we know, the services sector is an important economic pillar for Europe. In 2009, in the EU, services represented 3/4 of GDP and 70% of total employment (European Commission, 2010). According the WTO, EU’s trade in services accounted for 25% of world trade in services (the US for 18%; China for 6%), and the EU has great potential in service sector. In banking, insuring, office service etc., the EU has obvious comparative advantages. To get some progress in negotiation of trade in services, the EU made some concessions in trade in traditional sensitive goods, such as agricultural products and automobiles. Certainly, the EU still insists certain special industries or products, such as cultural industry. It shows the limits of free trade. The EU concessions in trade in goods does not mean the triumph of further trade liberalization,

but for market access for its services sector and cooperation in other issues such as protection of intellectual property rights (IPRs).

Secondly, the EU has tried to strengthen protection of IPRs with new FTAs. In the IPRs area, the EU has kept comparative advantages since late 19 century. The EU estimates that it suffers a great loss every year related to the weak protection of IPRs in other countries, especially in the developing world. By enhancing cooperation between trade partners on the protection of IPRs and increasing commitments of the trading partners in this area, would bring about great benefits for the EU. That is why the EU always makes great efforts to improve IPRs protection in FTAs and multilateral agreements.

Thirdly, on environment issues, it should be admitted that the EU has done better than many countries. There are multiple reasons for these developments, including industrial structure, technology endowment, economic and social development level and the environmental innovation, etc. It is obvious that solving the environment problems is a common duty of the whole world, but there are also great disparities between developing countries and developed countries. Considering the different burden for different countries to reach the same environmental protection level, considering the difference between countries with respect of environmental technology, it seems that the principle of common, but differentiated responsibilities proposed by developing countries is both reasonable and realistic. But, the EU and some other western countries try to link trade and environment protection. Maybe environment protection backs this approach, but many policy proposals could raise suspicions that the real motive of the EU might be to maintain its comparative advantages over developing world.

Labour issue is of similar nature as IPRs. European economic, as well as social development are much higher than in most other parts of the world. European integration has prompted further social development in all the EU member states. As a result, European labour standards are higher than in most other countries. Linking labour standards with trade will add extra burdens to most of the EU's trade partners but not to the EU itself, by which the EU can get more competitive advantages over its trade partners.

Outwardly, the EU's stances on all the above-mentioned issues look like reasonable, but it is questionable if it is the most appropriate or effective approach linking these issues with trade. It seems that the real ultimate motive behind the EU's stances lies in enhancing EU's competitiveness by making use of its comparative advantages.

3.2. Extending the EU's norms as universal norms

Since the end of WWII, integration has been one main theme of Europe. In the process of constituting the common market and later, the single market, the EU has kept deregulating and re-regulating the market by different methods and means, reformed and harmonized national regulations and laws, dismantling all kinds of trade barriers, and upgraded the EU's protection level of many non-trade issues, such as IPRs, labour and environment. It can be said that the rules the EU is trying to include in FTAs are all the EU has already practiced and has gained rich experiences in relevant areas.

Several examples may illustrate how the European integration helped the EU to formulate transnational trade rules to serve as comparative advantages for the EU. At the beginning of European integration process, elimination of customs duties and quantitative restrictions was provided, by the Rome Treaty. Although in implementing the Rome Treaty, some Member States have tried to protect national industries or entrepreneurs by adopting non-tariff measures, generally, trade barriers in common market became less and less under the efforts of European institutions and pro-integration forces, especially the European Commission, European

Court of Justice and big companies. With the development of the common market, social rights get more and more attention and receive more and more protection at both national and European level. Similar evolution also happened in respect of rules for environment protection and IPRs protection. In all these areas, the EU has developed relatively mature regulations and rules for the sake of market integration.

It can be said that what the EU to include in new FTAs are all what the EU has practiced. It is easier for the EU to adapt to and implement the new rules and standards for that it has accumulated experiences in transnational trade and investment. These experiences reflect the achievements of European integration as well as the part of European comparative advantages.

In this respect, the EU's strategy is to guarantee that international trade and investment rules are consistent with the EU's. The new FTAs have some constitutional dimensions, including exporting the EU's fundamental values to the partners countries and setting standards as pre-condition for further trade liberalization (Gstöhl & Hanf, 2014, p.735).

3.3. Choosing primary trade partners to negotiate FTAs

The EU has always chosen partners to conclude FTAs according to its objectives. But this time, the EU do not choose ACP countries as primary new FTAs partners as it did before. It set new criteria for choosing primary FTA partners in "Global Europe", which include the market potential (economic size and growth), the level of protection against EU export interests (tariffs and non-tariff barriers), the potential partners' negotiations with EU competitors, the likely impact of this on EU markets and economies, as well as the risk that the preferential access to EU markets currently enjoyed by the EU's neighbouring and developing country partners may be eroded (European Commission, 2006, p.9).

Based on above-mentioned criteria, the EU chose ASEAN, Korea and Mercosur as priorities, and also India, Russia and the Gulf Co-operation Council. It should be noted that in "Global Europe", the new priority FTA partners did not include China and the US. As to China, the EU recognized that China also meets many of these criteria, but requires special attention because of the opportunities and risks it presents. It did not mention the US, the main reason for that the US was the EU biggest competitor, and it would be not easy for the EU to reach an agreement with the US.

It can be inferred from 2006 criteria and the EU's choice of FTA partners that the EU did not choose trade partners with most liberal trade as its FTA partners, but choose the countries with market great potentials. It reflects the real intention and objectives of the EU to negotiate new FTAs.

2010 TGW enlarged the scope of new FTA partners. Besides the partners mentioned in "Global Europe", it adds the US, China, Japan and Russia into the list with which the EU would like to deepen its trade and investment links (European Commission, 2010, p.5). Obviously the criteria for choosing the US and Japan are different from the ones set up in "Global Europe". The main reason is that the EU needs alliance to work together to implement its new FTA strategy.

3.4. Forming strategic alliance to accomplish new FTA objectives

Just as mentioned above, 2010 TGW listed the US and Japan as its priority FTA partner. These countries are the EU's important trade partners and they are at the similar level of trade liberalization with the EU. But this is not the reason for the EU to choose them as new FTA partners, because they are also main trade competitors of the EU.

The important reason for the 2010 TGW adjustment of the list of FTA partners is that negotiation of FTAs guided by the “Global Europe” had not moved forward smoothly before 2010, especially the negotiation with India. The EU realized that, on the one hand, there were still some space for the EU to negotiate with its major trade partners for further liberalizing trade and investment, on the other hand, there were common interests for the EU and the US to set up new trade rules, for both of the EU and the US can get more benefits from these new rules. Common interests against emerging economies make the EU and the US to form a new kind of alliance once again after the Cold War.

Transatlantic Trade and Investment Partnership was initiated under this circumstances. The objective of this negotiation does not just aim at trade liberalization and advance bilateral investment, but also it has significant strategic implications. It will reconfirm the common interests between the EU and the US, and work together to make rules for international trade and investment which will be preferable to them and guarantee the EU, the US and other western countries can benefit more from world economic growth. Considering that the EU and the US together account for about 50% of the world economic output, 30% of world trade and 20% of global FDI, (Palmer, 2013) the rules and standards set up in TTIP definitely will have great impacts on international trade, investment and relevant rules. In this term, TTIP was called “Economic NATO”.

Certainly, although the EU has clear strategies to promote its new generation FTAs, it is not easy to achieve this goal for some internal as well as external reasons. So far the EU has just completed several negotiations of FTAs. It shows that there are many divergent interests within the new FTAs.

4. The implications of EU new generation FTAs

Although the main objective of EU new FTAs aims at economic interests and promotion of the EU’s competitiveness in global market, the choices of the new rules and standards as well as of the FTA negotiating partners inevitably have certain implications.

4.1. International trade rules and struggling for economic interests

From the perspective of objectives and new trade rules of EU new FTAs, the purpose of the EU new FTAs strategy is not to create a more fair and reasonable international economic order, but one which is favourable to the EU. In this international economic order, the EU would be more competitive and get more benefits from international trade.

Although overall, a FTA can bring about benefits to all trading partners, some researches reveal that the welfare of FTA are limited (Garcia, p.497), the distribution of the benefits of FTAs being not symmetrical. Some countries get more and others get less. Within the new FTAs the EU is concerned about areas and rules which can bring about more benefits to the EU, such as trade in services, protection of IPRs, labour standards. The new rules on these issues will be favourable to the EU and other developed countries, while they will produce more burdens to the other countries, affecting their competitiveness. Although it seems that all trading partners are on the same playing field, because of different capacities, the same set of rules and standards will produce different results. In this respect, Dent (2006) put forward the concept of “deficient capacity” in terms of technocracy, industry and/or institutional arraignments which may be a problem for developing countries when they negotiate and implement bilateral trade agreements with developed countries. The existence of “deficient capacity” means that there are no absolute reasonable and fair trade rules. All depends on a kind of balance of different interests of all trade partners.

The process of TTIP negotiation also illustrates that there is no easy way even for the close trade partners at the same development level. Although there are many common interests for the EU and the US to put forward new generation FTA, the competitiveness and disparity of interests in different issues make the bilateral negotiations a hard task.

4.2. The EU new FTAs would produce complex effects to the world economy and world order

The new FTAs make trade in service and non-trade issues at the centre, which would promote trade liberalization to cover broader areas of trade, and contribute to the progress of the world economy. Meanwhile, it would also promote the environment protection, IPRs and labour, leading to sustainable development. In a long run, it will produce positive effects on the world economy and global welfare.

But at the same time, because of the high standards and requirements provided in new FTAs, that may be settled beyond the implementation capacity of many developing countries, the latter may lose their comparative advantages. The disadvantages in terms of technology, research and development capability, high cost to improve the protection level of environment, labour and IPRs would make them less and less competitive compared with developed countries. They may lose an opportunity to catch up with the developed countries and become relatively poorer.

Considering the imbalance of political, economic and intellectual power between the developed and developing countries, big powers and small powers, multilateral negotiation such as negotiation in WTO will still be the best way to make international trade and investment rules, and balance the different interests of different kind of countries.

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