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The European Union: Towards Trends in Global Trade

Marek Wąsiński, Damian Wnukowski

Today's international situation may be favourable for the fulfilment of the European Union's trade policy objectives, which are the conclusion of free trade agreements and the promotion of EU regulations and product standards. The U.S. is no longer considered a predictable trading partner, while many countries, mainly in the Asia-Pacific region, seek to reduce their economic dependence on China. To seize this international opportunity, the EU must overcome internal challenges: limited public support for free trade agreements, the consequences of Brexit, and disputes between EU institutions and Member States.

The EU is a leader in global merchandise trade (in 2016 it accounted for 15.1% of the total) and trade in services (22.6%). At the same time, its economy is one of the most trade-dependent in the world. According to World Bank data the EU's trade in goods and services reached 83% of its GDP in 2016 (exports alone accounted for 44% of GDP), well above the global average (58%) or other major economies such as the U.S. (27%), China (37%) or Japan (36%). Significantly, this exceeds the global average in all EU Member States. Therefore, the EU aims to lift barriers for its exports. While negotiations in the World Trade Organisation forum stagnated, the EU's priority has become bilateral Free Trade Agreements (FTAs). In total, FTAs with 79 countries have been concluded (four agreements are pending ratification) and negotiations with 10 partners have already started. By reaching such agreements, the EU is attempting to disseminate its trade regulations and product standards. Considering the decreasing role of the EU in international trade in favour of emerging markets (mainly from Asia), this policy might become even more important.

Goals and Opportunities. The aim of the EU's trade policy is not only to reduce customs duties but also to decrease non-tariff barriers. Therefore, product standards, licensing, labour rights, intellectual property and environment protection are important aspects of trade negotiations. In that way the EU strives to make export easier for its producers and protect them against competition from entities which do not have to adhere to provision as strict as those that are binding in the EU. Up to now, developing states have been reluctant to adopt the EU's regulations. However, this can change if the characteristics of specific partners are considered, as in the case of the EU-Vietnam FTA.

The shift towards protectionism in U.S. trade policy since Donald Trump became president could endanger the EU's economic interests, but at the same it favours the EU's image as a predictable and stable trade partner.¹ What is more, the U.S. withdrawal from the Transpacific Partnership means that remaining signatories of that treaty (11 countries) may be more willing to seek other partners, such as the EU, as they attempt to diversify trade.²

Moreover, China's exploitation of trade and capital dependencies for political purposes often has a negative impact on its image among economic partners. As an example, difficulties for Korean companies

¹ M. Wąsiński, "Trump's Trade Policy: Protectionism Bluster," *PISM Bulletin*, no. 95 (1035), 9 October 2017.

² M. Wąsiński, D. Wnukowski, "Consequences of the U.S. Withdrawal from the Trans-Pacific Partnership," *PISM Strategic File*, no. 3 (87), June 2017.

on the Chinese market developed after South Korea's decision to deploy the U.S. THAAD anti-missile systems in 2016.³ Fear of politically-motivated economic actions by China may incline its trade partners to seek new relationships and sources of capital. The EU may benefit from this situation.

Challenges. Nevertheless, China and the U.S. remain strong competitors for the EU. Although projects such as the Belt and Road Initiative or regional FTAs mostly serve Chinese economic expansion, their aim is also to present China as an advocate of free trade and globalisation.⁴ In that way, China competes with the EU and the U.S. in trying to attract partners from all over the world. On the other hand, the United States, which is still the biggest economy in the world, has significant bargaining power which it will strive to use to reach bilateral FTAs in line with the Trump Administration's strategy.

The EU's trade policy also faces internal challenges, including the rise of protectionist tendencies within the bloc. Plans to strengthen market protection instruments (mainly anti-dumping and anti-subsidy rules) can be seen as protectionist measures, though in some cases (for example, counter-measures against export subsidies of Chinese steel) they are justified. Moreover, the EU is discussing internally the implementation of a new procedure called screening, concerning the influence of foreign investments on the security and competitiveness of Member States. The abovementioned steps, considered mainly in the context of China's activity, can negatively affect the EU's credibility as an advocate of free trade and investment flows.

The EU's image is also influenced by the approach of Member States' societies towards free trade agreements, such as those with Canada (CETA) and the U.S. (TTIP). Negotiations were perceived as non-transparent processes that strengthened the position of international corporations, and this sparked social protests. Those controversies were the reason for the difficulties in the ratification of CETA. When it was to be signed in 2016, Valonia (a federal region of Belgium) rejected the deal because of the investment protection system. Ultimately, solutions such as adding a joint interpretative declaration to the agreement allowed the obstacles to be overcome. Nevertheless, this situation shows the risks connected to negotiations with the EU, as the entire process could be undermined by one Member State rejecting ratification. Therefore, the European Commission (EC) sought to indicate a clear division of competences between the EU and Member States. In May 2017, following an EC motion, the Court of Justice of the European Union (CJEU) issued an opinion in that matter based on the EU-Singapore FTA that was signed in 2014. According to the opinion, regulations concerning foreign indirect investment and the state-investor dispute settlement system in the EU-Singapore deal are subordinate to mixed competences and thus must be accepted by every Member State. The CJEU's decision may determine the EU's future negotiations on trade agreements.

The other internal challenge for the EU's trade policy is Brexit. This will significantly decrease the bloc's economic potential, as the United Kingdom is its second largest economy representing 16% of total EU GDP. Thus, Brexit will diminish the EU's attractiveness for foreign partners and weaken its negotiating position in forthcoming trade talks.

Prospects. The international situation, including policies pursued by the U.S. and China, favours tightening of cooperation between the EU and other partners. However, EU trade policy will be largely determined by external challenges (continuing strong competition from China and the United States, and the growing role of emerging markets) and internal issues (such as the consequences of Brexit and the effectiveness of the ratification procedure). Thanks to the opinion of the CJEU, the process of ratifying FTAs may be improved in the future, thus enhancing the EU's credibility. However, the ratification process of the free trade agreement with Japan (negotiations were concluded in December 2017), from which investment issues were excluded in line with CJEU jurisprudence, will be a test for this possibility. Despite the CJEU opinion, the European Council can still demand ratification in each Member State.

At the same time, to increase public support for EU trade policy, Member States, governments need to identify more closely with it. They, not the EC (which is not directly accountable to citizens), should be responsible for conducting dialogue with the civil society institutions and business organisations. Greater involvement of governments during negotiations and ratification would optimise the whole process, increase its transparency, and decrease the negative public perception of some decisions regarding EU trade policy.

³ O. Pietrewicz, "China-South Korea Relations: An Attempt to Break the Deadlock," *PISM Bulletin*, no. 3 (1074), 5 January 2018.

⁴ J. Szczudlik, D. Wnukowski, "China as an 'Engine' of Globalisation: More Words than Deeds," *PISM Policy Paper*, no. 5 (158), September 2017.