



THE EUROPEAN UNION AND ITS TRADE PARTNERS

Over the years, the EU has been moving away from the production of labour-intensive, low-value products in order to specialise in higher-value, branded goods. With its open economy, trade is essential to the EU. To overcome barriers to trade and level the playing field for its businesses, the Union is negotiating a number of free trade agreements (FTAs). The EU is also a founder of and key player in the World Trade Organisation (WTO).

LEGAL BASIS

Article 207 of the Treaty on the Functioning of the European Union (TFEU) establishes the common commercial policy as an exclusive competence of the European Union.

THE EU'S CENTRAL POSITION

The EU is the world's largest economy, accounting for over 20% of global gross domestic product (GDP). Thanks to its GDP of around EUR 15 trillion and the openness of its market, accounting for EUR 2 791 billion of exports and EUR 2 578 billion of imports in goods and services, the EU has played a central role in shaping the global trading system, first and foremost by supporting the WTO. Economic openness has brought, and will keep on bringing, significant advantages to the EU, given that more than 30 million jobs in the EU depend on external trade and that 90% of global economic growth in the next 15 years is expected to be generated outside Europe^[1]. New economic players and technological breakthroughs have significantly changed the structure and patterns of international trade. In particular, the widespread use of information technologies has made it possible to trade goods and services that could not previously be traded. Foreign exchange has grown tremendously during the last 20 years, reaching unprecedented levels. Today's global economy is highly integrated, and global supply chains have largely replaced the traditional trade in finished goods.

The effects of the global financial crisis have had a negative impact on the Union's economic performance. Yet in some respects, the EU's economy has shown notable resilience when compared with other industrialised economies, and its share of global GDP has declined less rapidly than those of Japan and the USA. The EU has also been able to preserve a relatively strong position in trade in goods while reinforcing its leading role in trade in services.

[1] 'Trade for all: Towards a more responsible trade and investment policy', European Commission, 2015, p. 8, retrieved 26 April 2019, http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf



ROLE OF THE EUROPEAN COMMISSION AND THE EUROPEAN PARLIAMENT

International trade was one of the first sectors in which Member States agreed to pool their sovereignty. As a consequence, they mandated the Commission to handle trade matters, including negotiating international trade agreements, on their behalf. In other words the EU, acting as a single entity, negotiates, on behalf of all its Member States, both bilateral and multilateral trade agreements. As is demonstrated by its record in the WTO dispute settlement system, the EU has shown a remarkable capacity to defend its own interests in international trade disputes. The EU has also used international trade tools to promote its own values and policies and has been trying to extend its own regulatory practices to the rest of the world. Indeed, the ‘promotion of European values’, among them human rights, sustainable development, good governance and respect for the environment, is one of the three pillars of the EU trade strategy ‘Trade for All’.

The EU has traditionally favoured an open and fair international trading system. It has worked strenuously to ensure the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade.

The Treaty of Lisbon also enhanced the role of the European Parliament by making it co-legislator on matters involving trade and investment, on an equal footing with the Council. In addition, the Treaty conferred on Parliament a more active role in the negotiation and ratification of international trade agreements, since its consent is now mandatory. However, some elements of trade policy remain within the remit of the Member States. On 16 May 2017, the Court of Justice of the European Union (CJEU) published an opinion which gave clarity about the division between national and EU competences.

TRADE POLICY AND ORIENTATION

The 2010 communication ‘Trade, Growth and World Affairs’ made international trade one of the pillars of the Europe 2020 strategy aimed at making the EU greener and more competitive. Similarly, the ‘Trade for All’ strategy of 2015 reinforces EU trade policy as the main contributor to promoting growth, jobs and investment. It also calls for the WTO to be revitalised by giving it a central role in developing and enforcing rules, by adopting a more focused approach, instead of the current ‘single undertaking’ approach whereby all items on the agenda must be agreed together, and by creating a ‘two-tier’ mechanism that allows a subset of WTO members to advance on a specific issue, while enabling other members to join the group at a later stage.

However, after the deadlock in the multilateral negotiations within the WTO on the Doha Development Agenda, the EU had to find alternative ways to guarantee better access to third countries’ markets. To this end, a new generation of comprehensive FTAs which go far beyond tariff cuts and trade in goods was introduced.

The first such ‘new-generation’ FTA was concluded with South Korea and, following ratification by the European Parliament, was provisionally applied from July 2011, formally entering into force in December 2015. The Multi-Party Trade Agreement



between the EU and Peru, Colombia, and later Ecuador, in force provisionally since 2013, the Association Agreement with the countries of Central America, the trade pillar of which has been provisionally applied since 2013, the EU-Canada Comprehensive Economic and Trade Agreement (CETA), provisionally applied since September 2017, the EU-Singapore FTA, on which negotiations were concluded in 2014, and the EU-Vietnam FTA, on which negotiations were concluded at the end of 2015, are all testimony to the new policy. An FTA with Japan entered into force on 1 February 2019.

While negotiations with the US on the Transatlantic Trade and Investment Partnership (TTIP) have been suspended, the EU is in the process of negotiating with other key partners. Negotiations on a trade agreement with the founding members of Mercosur are considered an important stepping stone to greater access to the South American market. The EU has also opened FTA negotiations with Indonesia, Tunisia, the Philippines, Australia and New Zealand. Negotiations with Malaysia, Thailand and India will be resumed as soon as conditions are favourable. The EU has also launched negotiations for stand-alone bilateral investment treaties with China and Myanmar, and will explore the possibility of launching similar negotiations with Taiwan and Hong Kong. Negotiations with Iran will be considered after the latter's accession to the WTO.

These agreements will bring significant benefits. The average tariffs imposed on EU exports are due to be cut by approximately 50%. FTAs are projected to contribute an additional 2% of EU GDP to economic growth in the EU^[2]. The finalisation of these agreements may, however, take several years.

IMPORTS AND EXPORTS

Europe is the world's largest exporter of manufactured goods and services, and is itself the biggest export market for around 80 countries^[3]. The EU's trade in goods with the rest of the world was worth EUR 3 936 billion in 2018^[4].

The European Union's main trading partners — Trade in goods in 2018 (million EUR)

Country	Exports	Imports	Total	Trade balance
US	406 372	267 270	673 642	+139 102
China	209 906	394 698	604 604	-184 791
Switzerland	156 484	108 980	265 464	+47 504
World	1 955 746	1 980 361	3 936 107	-24 615

Source: European Commission, 2019

Both imports and exports increased in comparison with 2017. This increase was larger for imports (EUR 123 billion) than for exports (EUR 76 billion).

[2] 'The European Union explained: Trade', European Commission, 2016, p. 5, retrieved 12 April 2019, <http://bookshop.europa.eu/en/trade-pbNA0216154/>

[3] 'EU position in world trade', European Commission, retrieved 12 April 2019, <http://ec.europa.eu/trade/policy/eu-position-in-world-trade/>

[4] EuroStat news release 49/2019 <https://ec.europa.eu/eurostat/documents/2995521/9677750/6-18032019-AP-EN.pdf/6fce968a-cc9f-494d-a19c-e04576e42fa9>



The EU-28's trade surplus for goods fluctuated from EUR 11 billion in 2014 to EUR 60 billion in 2015 and EUR 20.5 billion in 2017^[5]. In 2018, a deficit of EUR 24.6 billion was recorded. While machinery and transport equipment were the most important categories for both exports and imports, they were followed by chemical products in the case of exports and mineral fuels in the case of imports.

Total exports in 2018 rose by 4.1% compared to the previous year, while imports rose by 6.7%, to reach values of EUR 1 956 billion and EUR 1 980 billion respectively. The US remained by far the most important destination for goods exported from the EU in 2018, followed by China, Switzerland and Russia.

China was the EU's leading supplier of goods in 2018, followed by the US and Russia.

The recent small drop in the balance of trade in goods contrasted with further progress in the positive balance of trade in services. In 2017, the EU reported a balance in service transactions with the rest of the world of EUR 191 billion, reflecting exports of EUR 912 billion and imports totalling EUR 721 billion. Trade in services accounted for 33% of EU exports and 28% of EU imports of goods and services in 2017^[6]. The US, European Free Trade Association (EFTA) countries and Asia were among the EU's biggest partners for trade in services. According to the most recent data available, EU trade in services mainly focused on three categories: other business services, transport and travel^[7].

EU FOREIGN DIRECT INVESTMENT

The EU is the world's largest investor and a major recipient of others' foreign direct investment (FDI). The entry into force of the Treaty of Lisbon in 2009 further extended the EU's exclusive competences in international trade matters, which now include FDI. To clarify the exact scope of its competences on investment, the Commission asked the CJEU for an opinion on the EU-Singapore FTA. The Court's opinion of 2017 confirmed that most aspects of FDI fall under EU competence, with some exceptions, in particular dispute settlement.

Share of world FDI in 2016 (%)

Country	Inward stock	Outward stock
EU	38.4%	52.0%
US	35.3%	39.5%
China	7.5%	7.9%
Canada	5.3%	7.5%
Japan	1.0%	8.7%

[5]DG Trade Statistical Guide June 2018, European Commission, http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151348.pdf

[6]European Parliament DG EXPO calculations based on European Commission figures.

[7]'International trade in services', Eurostat, https://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_services#Main_services_traded, retrieved 12 April 2019; Other business services statistical category consists of: research and development; professional and management consulting; technical, trade-related and other services.



Source: European Parliament DG EXPO calculations based on European Commission figures

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