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 Organization (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, China and the US are the world’s largest economies, each accounting for about 16% of global gross domestic product (GDP). Thanks to its GDP of around EUR 13 trillion and the openness of its market, the EU has played a central role in shaping the global trading system, among other things by supporting the WTO. Economic openness has brought significant advantages to the EU, given that more than 30 million jobs in the EU depend on external trade and that global economic growth is expected to be generated mainly outside Europe. New economic players and technological innovation, in particular digitalisation, have changed the structure and patterns of international trade. Today’s global economy is highly integrated, and global supply chains have largely replaced the traditional trade in finished goods.

Although the 2009 global financial crisis had a negative impact on the Union’s economic performance, the EU has been able to preserve a relatively strong position in trade in goods while reinforcing its leading role in trade in services. The COVID-19 pandemic has slowed down economic growth and trade worldwide and triggered discussion about relocating industries back to Europe (referred to as ‘reshoring’). Reshoring is only likely to be applied selectively in critical sectors, while global supply chains are expected to continue to be of major importance.

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 been able 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. The EU has traditionally favoured an open and fair international trading system.

The Treaty of Lisbon 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

When the multilateral negotiations within the WTO on the Doha Development Agenda stalled in the first decade of the 21st century, 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 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, formally entered into force in December 2015. The Multi-Party Trade Agreement between the EU and Peru, Colombia, and later Ecuador (since 2017), 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 (with Honduras, Nicaragua, Panama, Costa Rica, El Salvador and Guatemala), the EU-Canada Comprehensive Economic and Trade Agreement (CETA), provisionally applied since September 2017, the EU-Singapore FTA, in force since the end of 2019, and the EU-Vietnam FTA, in force since mid-2020, are all testimony to the new policy. An Economic Partnership Agreement with Japan entered into force on 1 February 2019.

Since negotiations with the US on the Transatlantic Trade and Investment Partnership (TTIP) were suspended in 2016, the EU has focused on agreements with the US in specific areas, such as tariffs on industrial goods or conformity assessment. Negotiations on a trade agreement with the founding members of Mercosur were completed in 2019, and the draft agreement is awaiting ratification. The EU has also opened FTA negotiations with Indonesia, Tunisia, the Philippines, Australia and New Zealand. Negotiations with India were relaunched in 2021, whereas those with Malaysia and Thailand will be resumed as soon as conditions are favourable.

The ‘Trade for All’ strategy of 2015 aimed at an EU trade policy which reconciles promoting growth, jobs and investment with pursuing fair trade in terms of respect for human rights and the environment. It also called for the WTO to be revitalised and reformed. In February 2021, the Commission presented its ‘Trade Policy
Review’ (TPR), entitled ‘An Open, Sustainable and Assertive Trade Policy’, which aims to set the course for trade policy until 2030. The TPR is the successor of the 2015 ‘Trade for All’ strategy and reflects the geopolitical changes that have taken place since then, by introducing terms such as ‘assertiveness’ and ‘resilience’ into the trade vocabulary, in addition to the well-known concepts of ‘fairness’ and ‘sustainability’. It intends to make trade policy meet current challenges and facilitate the green and digital transitions through ‘Open Strategic Autonomy’.

MAIN EU TRADE PARTNERS

Europe is the world’s largest exporter of manufactured goods and services, and is itself the biggest export market for around 80 countries[1]. In 2020, China took over the position as the EU’s main trading partner in goods from the US, with an overall share of 16.1% compared with 15.2% for the US. Since the UK left the EU, it has become the EU’s third trade partner for goods, accounting for 12.2% of all trade in goods. Other important trade partners for goods, in descending order, are Switzerland (6.9%), Russia (4.8%), Turkey (3.6%), Japan (3.0%), Norway (2.5%), South Korea (2.5%) and India (1.8%)[2].

As regards trade in services, the US is the EU’s main trading partner, followed by the UK and Switzerland[3].

The COVID-19 pandemic reduced international trade in goods, including that of the EU with its main trading partners, substantially in 2020.

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 2018 (%)

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<tr>
<th>Country</th>
<th>Inward stock</th>
<th>Outward stock</th>
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<tbody>
<tr>
<td>EU</td>
<td>34.2%</td>
<td>45.4%</td>
</tr>
<tr>
<td>US</td>
<td>30%</td>
<td>28.4%</td>
</tr>
<tr>
<td>China</td>
<td>6.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Canada</td>
<td>3.5%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.9%</td>
<td>7.3%</td>
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Source: European Parliament DG EXPO calculations based on European Commission figures

The EU concluded in principle the negotiations for a Comprehensive Agreement on Investment (CAI) with China in December 2020, which is awaiting ratification. Investment protection agreements with Singapore and Vietnam also have to be ratified. The EU also launched negotiations on investment with Myanmar and will explore the possibility of following suit with Taiwan and Hong Kong. Negotiations with Iran will be considered after the latter’s accession to the WTO. In December 2020, the EU also concluded a trade and cooperation agreement with the UK, to which the European Parliament gave its consent in May 2021. The EU-UK agreement provides for zero tariffs on trade in goods and also covers investment and several other policy areas.

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