THE EU'S GLOBAL ROLE IN TRADE AND COMPETITIVENESS

LECTURER ADRIANA GIURGIU
PH.D.S, PROF. MIHAI BERINDE, PH.D.
University of Oradea, Faculty of Economic Sciences
Universitatii str. 1, Post code 410087, Oradea, Bihor, Romania
Tel.: +40-259-408422; E-mail: *agiurgiu@uoradea.ro* ***or***
mihai.berinde@consiliulconcurentei.ro

Abstract: The European Union is the world's biggest trader and player, accounting for 20% of global imports and exports, and promotes trade benefits for all. EU has open trade among its members and has brought growing prosperity to all its member states, agreeing that trade can boost the economic growth and productive capacities of all nations, including the poor ones.

1. The European Union as a world trade player.

European Union has now a population of 450 million – more than the United States and Russia combined. It is the world's biggest trader and generates one quarter of global wealth. Its currency, the euro, comes second only to the US dollar in international financial markets.

The EU did not set out to become a world power. Born in the aftermath of World War II, its first concern was bringing together the nations and peoples of Europe. But as the Union expanded and took on more responsibilities, it had to define its relationships with the rest of the world. Just as it has worked to remove trade barriers, develop poorer regions and promote peaceful cooperation within its frontiers, so the Union works with other countries and international organisations to bring everyone the benefits of open markets, economic growth and stability in an increasingly interdependent world. At the same time, the EU defends its legitimate economic and commercial interests in the international arena.

The European Union shows, besides playing a world's peacemaker role, how countries can successfully pool economic and political resources in the common interest. It serves as a model for integration between countries in other regions of the world.

Since its birth in the 1950s, the European Union has been developing relations with the rest of the world through a common policy on trade, development assistance and formal trade and cooperation agreements with individual countries or regional groups.

The EU's common trade policy operates at two levels. Firstly, within the World Trade Organisation (WTO), the European Union is actively involved in setting the rules for the multilateral system of global trade. Secondly, the EU negotiates its own bilateral trade agreements with countries or regional groups of countries.

Development assistance and cooperation, originally concentrated in Africa, was extended to Asia, Latin America and the southern and eastern Mediterranean countries in the mid-1970s. The underlying purpose is always to support sustainable growth and development in the partner countries, so that they have the resources to tackle and eradicate poverty. The Union has every interest in supporting its partners and encouraging them to be successful and prosperous.

1.1. Trade benefits for all

The European Union is the world's biggest trader, accounting for 20% of global imports and exports. Open trade among its members underpinned the launch of the EU nearly 50 years ago and has brought growing prosperity to all its member states. The Union therefore takes a lead in efforts to open up world trade for the benefit of rich and poor countries alike.

Increased trade is likely to boost world growth to everybody's advantage. It brings consumers a wider range of products to choose from. Competition between imports and local products lowers prices and raises quality. The EU believes that globalisation can bring economic benefits to all, including the developing countries, provided appropriate rules are adopted at the multilateral level and efforts are made to integrate developing countries in world trade.

That is why the European Union is negotiating with its partners to open up trade in both goods and services. The EU seeks to help developing countries by giving them better access to its market in the short term, while allowing them more time to open their own markets to European products. At the same time, the EU is reforming its agricultural policy – and this too will benefit developing countries.

1.2. EU – An international trade team player

A team sport needs a level playing field, rules that all teams accept and a referee to ensure fair play. This is why the EU is a firm supporter of the World Trade Organisation (WTO), which lays down a set of rules to help open up global trade and ensure fair treatment for all participants.

The EU has become a key player in the successive rounds of multilateral negotiations aimed at opening up world trade. It attaches particular importance to the current round, known as the 'Doha development round', which was launched in 2001. The aim is to remove obstacles to open trade, particularly to benefit developing countries.

As we mentioned, trade rules are multilateral, but trade itself is bilateral – between buyers and sellers, exporters and importers. This is why the European Union has developed a network of bilateral trade agreements with individual countries and regions across the world. The enlargement of the EU from 15 to 25 members in 2004 gives it added weight as a trading partner, particularly with its neighbours in Eastern Europe and the Mediterranean basin.

The EU's trade policy is closely linked to its development policy. The two come together as the Union assumes its share of responsibility to help developing countries fight poverty and integrate into the global economy.

It has long recognised that trade can boost the economic growth and productive capacities of poor nations. As early as 1971, under its 'Generalised System of Preferences' (GSP), the EU began reducing or removing tariffs and quotas on its imports from developing countries. Furthermore, through its 'Everything but arms' initiative launched in 2001, the Union grants the 49 least-developed countries free access to the EU market for all their products, except weapons.

The special trade and aid relationship between the Union and its 78 partners in Africa, the Caribbean and the Pacific (the ACP group) dates from 1975 and is considered a model for how rich countries can help poorer ones.

2. Trade and competitiveness – "Competitive means open to the world"

2.1. Lisbon agenda

On 2 February 2005 the new "Barroso Commission" launched a package of measures designed to give new impetus to the Lisbon agenda, the ten-year program to reform and renew the European economy. The Lisbon Agenda aims to give a decisive boost to growth and job-creation in Europe by strengthening the European internal market and improving Europe's competitiveness in the global economy.

International trade is a key part of this. Compared to its size, the EU is one of the most outward-oriented economies in the world. EU trade in goods and services accounts for 15% of its GDP (that is 3 points above the US or Japan) and the share of industrial export in industrial added value is more than twice as high as this figure. The EU is the first exporter of goods and services and the first investor abroad. In this context, the external dimension of competitiveness seems unavoidable: the EU can ill-afford to ignore the role of opening markets in its jobs and growth strategy.

Like the Single Market, the EU's ever-greater openness to trade and investment has been a major "catalyst of growth" over the last two decades. Alone, it explains a quarter of the productivity gains witnessed across Europe, owing to greater competition, better specialisation based on comparative advantage, innovations generated by greater competition, the technological content of foreign imports and investments, and economies of scale. In many sectors (such as textiles or automotive), extra-EU liberalisation has been a major factor in reinforcing competitive disciplines in the EU economy, even as compared with the effects of internal liberalisation.

2.2. The EU promotes "open and fair" trade

An open and fair international trading system is a major contribution to Europe's competitiveness. When tariff or non-tariff barriers block the flow of primary goods into Europe or the access of European companies to markets outside Europe, Europe's competitiveness suffers. When anti-competitive practices distort or undermine resulting trade, Europe's competitiveness still suffers. Competitive means, "open to the world, and the world open to us".

Europe's market must be open to cheap supplies of intermediary goods and raw materials for European producers of value-added products. Restricting this flow of goods raises costs for European companies, making them less competitive: the EU needs to import so as to export. The EU has consistently removed these barriers to its own economy and now has one of the most open markets in the world. Moreover, internal and external openness are inextricably linked. The further internal liberalisation within the Single Market that the new Lisbon agenda, the so-called "Growth and Jobs Strategy", priorities - will create a common set of rules for 450 million plus people and encourage overseas entry into these markets. To be welcomed not feared. Will improve European competitiveness.

Addressing barriers to EU exports in third countries accounts for the bulk of the potential to improve the competitive position of the EU industry. Its leading trading partners are less open than the EU, sometimes significantly so. This implies that EU trade interests are first and foremost outward looking in nature: the EU stands to win from the further opening of markets worldwide. By negotiating the removal of tariff and non-tariff barriers and ensuring the EU's regulation converges with that of its trading partners, the EU can open new markets for its exporters.

This is crucial in the services sector, which is of growing importance for the European economy but which faces higher trade barriers than goods. Transparent, predictable and enforceable regulation is an important confidence builder for European businesses investing or trading abroad.

At the same time, Europe has to focus on what it does well. The EU has a strong global export profile in high-quality and high-tech products and services, which now account for about half European exports and a third of world demand. This is an unstable equilibrium, however, and the EU position is at risk, because the European industry is losing ground in high technology products. Continued innovation and investment in this comparative advantage is crucial. Better respect and enforcement of intellectual property rights at the international level is therefore of utmost importance.

2.2.1. Tariffs and non-tariff barriers of the EU

The key point of the Doha mandate concerns the reduction or elimination of tariff peaks, high tariffs and tariff escalation, in particular for products of export interest to developing countries and for environmental goods. The EU considers that modalities for the market access negotiations must aim at tariff cuts at single line level for all WTO Members, if we want to remove the disparities existing between tariff profiles.

Moreover it is of strategic importance to the EU that all trading partners remove also other non-tariff barriers, since they frustrate any additional market access acquired via tariff liberalisation.

So the road to Lisbon runs through Doha. For Europe's competitiveness, a successful and ambitious rewriting of international trade rules in the Doha Development Agenda (DDA) at the WTO is imperative. The EU's goal is a fair and open set of trade rules that improve market access for European goods and services in third countries. The EU must continue to take ambitious positions regarding tariffs, non-tariff barriers, services, geographical indications and rules (especially anti-dumping disciplines) within the DDA.

This should be complemented by bilateral or regional initiatives, such as Regional Trade Agreements (RTAs) with Mercosur and the Gulf Cooperation Council, which allow the pursuit of a wide agenda. The new challenge for EU's trade policy is to reinforce international norms and standards if it wants to tackle non-tariff barriers detrimental to EU industry.

Delivering on the commitment undertaken in Doha, the EU tabled an ambitious proposal for tariff reductions in industrial goods. The EU proposes a compression mechanism: eliminating tariffs peaks and high tariffs, and significantly reducing tariff escalation.
The EU economy is already one of the most open to trade: the EC average level of customs duty protection amounts to around 4% on industrial goods, taking into account MFN rates. EU tariffs for industrial products are among the lowest in the world. Moreover imports from many of the EU's suppliers of industrial products enter the Community at preferential rates under the terms of bilateral agreements, the Generalised System of Preference (GSP) or tariff suspension regimes. For instance steel imports from Mediterranean countries, linked to the Community through bilateral Co-operation Agreements or Euro-Mediterranean Agreements, enter at zero duty.

This bold initiative advances meaningful liberalisation across all non-agricultural products, which represent over 70% of developing country exports. It also includes a proposal for all WTO Members to reduce tariffs for textiles clothing and footwear to a narrow common range as close to zero as possible. The EU is also adding specific unilateral elements it is prepared to shoulder with other key WTO members in order to take greater account of the needs and interests of developing countries. The mechanism proposed would benefit all WTO Members, with tariff cuts across non-agricultural products.

This single, common tier of basic commitments - the compression mechanism and targeted reductions on textiles clothing and footwear - will in itself respond to many of the development objectives of the Doha Mandate.
But in order to go the extra mile, the EU is ready to consider adding the following non-reciprocal elements:

- Unilateral tariff elimination - by all developed and possibly the most developed of developing countries - for all products from least developed countries by May 2003.
- Elimination of all duties beneath a specific floor to the benefit of developing and least developed countries.
- Gradual phasing in of commitments for some members, where appropriate and depending on the results of the negotiations.

The EU also reiterates its desire to negotiate cuts that are deeper than average for those goods identified by the negotiating group as environmental goods, and whose liberalisation will help to develop a mutually supportive relationship between economic growth and environmental protection.
Industry needs certainty. This is why the EU also proposes a substantial increase in the number of headings bound (i.e. products for which the tariff is fixed and cannot be raised), to foster greater security and predictability in international trade, with the objective of achieving 100 per cent bindings for all WTO members other than the least developed countries.

Conclusions

This modern trade agenda will only work politically if Europe can counter fears of insecurity. Europe has to become much more successful at anticipating and managing the transitional effects of trade opening in order to facilitate and accelerate economic change. This implies a push for more flexible labour markets and active safety nets within the EU, but also for targeted anticipative measures. Adjustment to the dynamics of the Single Market was the key reason for the inception of cohesion policy at the end of the 80's: the adjustment to changes induced by international trade opening and the division of labour should be part of today's justification for a modern cohesion policy.
Beyond this, the EU should contribute to the long-term creation/development of export markets for EU exports, both by encouraging the integration of larger regional markets, as well as promoting institutions and policies that favour "inclusive" development strategies in emerging countries, and EU external instruments should converge in supporting this approach.

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