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THE INTERNAL MARKET, A REGIONAL COMMERCIAL POWER IN A GLOBALISING WORLD

by

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1.	Legal framework	1
2.	The European Union as a Trade Partner	7
3.	EU Trade Relations with Industrialised Countries	10
4.	EU Trade Relations with Developing Countries	14
5.	Conclusion	19
	Abbreviations, tables	22
	References	23

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The European Union is the most important trade partner in the world. In 1994, the European Union as such (extra-EU trade; 12 member states) was the most important exporter in the world (share of 19.4%) and the second most importer, after the United States, with a share in world merchandise trade of 18.8%. Considering this position, it is more than worthwhile to have a look at the commercial policy of the Union in the context of a rapidly changing and globalising environment.

After examining the legal basis of the common commercial policy (CCP), we will give an overview of the major trade regimes that were established between the Union and its trade partners.

1. Legal framework

As far as the legal foundations of the EU's trade policy are concerned, two basic documents need to be mentioned: the EEC-Treaty of Rome of 1957¹ on the one hand and the post-war global General Agreement on Tariffs and Trade of 1948 having led to subsequent trade rounds² and the creation of the World Trade Organisation (WTO) in 1995 on the other hand.

1.1 Treaty of Rome (EEC)/Treaty of Maastricht (EU/EC)

The European Economic Community (EEC), established by the Treaty of Rome, has been a customs union and a common market, basically for manufactured goods, since 1 July 1968. Since that date, all customs duties and quantitative trade restrictions have been abolished among the member states. As far as the external tariffs are concerned, common and uniform rates apply.

¹amended in 1987 by the Single European Act and in 1993 by the EU-Treaty of Maastricht

²cf. Uruguay Round 1986-93

As far as new members of the European Union (EU) are concerned, transition periods are generally introduced in order to allow the new member states to adapt their original external trade policy to the common external tariff (CET) in particular and the CCP in general. For instance, in the case of Spain and Portugal, the transition period had lasted from 1 January 1986 until 31 December 1995. On a more limited scale, however, Austria, Finland and Sweden who joined the EU on 1 January 1995, also benefit from some transition periods for so-called sensitive goods and sectors of their respective economies.

Beyond the common market, the internal market has been mostly completed since 1 January 1993. It took until the parallel removal of nationally divergent non-tariff barriers to trade (NTBs) to have very advanced freedom of goods, services, capital and persons within the EU. External trade partners of the EU also fare well with the completed internal market. Basically, the removal of most technical, physical and fiscal barriers to trade among the EU-member states (intra-EU trade)³ has led to a European, and not merely national, treatment of an imported item. With the internal market, 15⁴ national markets have become one single European market.

As the common market was reproduced externally into a CCP, which has been institutionally translated into a pivotal role for the European Commission, a true internal market cannot but have a deepened external dimension. As we will see, the latter transition has logically led to the further increasing of the role of the Commission. For instance, unilateral quotas that had been established by different member states in order to limit the import of Japanese cars on the basis of article EEC 115, had to be replaced by EC-quotas administered by the European Commission.

In principle, member states will not be allowed anymore (by the Commission) to resort to national safeguard measures. Although national safeguard measures were not the reason for establishing new, EC-quotas, for the import of bananas from non-ACP countries (Stevens 1996), the internal market has basically led to the substitution of EC-quotas for former national quotas, if not to the removal of all quotas.

Following the completion of the internal market, article 115 of the EEC-Treaty on national safeguard measures was replaced by a new text in the Treaty of Maastricht.

Since the Treaty of Maastricht, national safeguard measures measures, if they are allowed by the Commission, should be of an exceptional and brief nature. The Commission has attained near veto-power in this area.

Besides article 115, article 110-114 and 116 of the EEC Treaty constituted the legal framework of the CCP. Articles 111, 114 and 116 were repealed by the Treaty of Maastricht.

³ and, in some instances, their substitution by common European NTBs

⁴ 18 when considering the European Economic Area (EEA)

The original article 115 of the Treaty of Rome (EEC) read:	The amended article 115 of the Treaty on the European Union (EU/EC) reads:
<p>In order to ensure that the execution of measures of commercial policy taken in accordance with this Treaty by any Member State is not obstructed by deflection of trade, or where differences between such measures lead to economic difficulties in one or more Member States, the Commission shall recommend the methods for the requisite co-operation between Member States. Failing this, the Commission [shall] authorise Member States to take the necessary protective measures, the conditions and details of which it shall determine.</p> <p>In case of urgency during the transitional period, Member States may themselves take the necessary measures and shall notify them to the other Member States and to the Commission, which may decide that the States concerned shall amend or abolish such measures.</p> <p>In the selection of such measures, priority shall be given to those which cause the least disturbance to the functioning of the common market and which take into account the need to expedite, as far as possible, the introduction of the common customs tariff.</p>	<p>In order to ensure that the execution of measures of commercial policy taken in accordance with this Treaty by any Member State is not obstructed by deflection of trade, or where differences between such measures lead to economic difficulties in one or more Member States, the Commission shall recommend the methods for the requisite co-operation between Member States. Failing this, the Commission [may] authorise Member States to take the necessary protective measures, the conditions and details of which it shall determine.</p> <p>In case of urgency, Member States shall request authorisation to take the necessary measures themselves from the Commission, which shall take a decision as soon as possible; the Member States shall then notify the measures to the other Member States. The Commission may decide at any time that the Member States concerned shall amend or abolish the measures in question.</p> <p>In the selection of such measures, priority shall be given to those which cause the least disturbance to the functioning of the common market.</p>

(bold characters added by the author)

The central article 113 was amended as follows:

The original article 113 read (EEC)	The present article 113 reads (EU/EC)
<p>1. After the transitional period has ended, the common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion or tariff and trade agreements, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in case of dumping or subsidies.</p> <p>2. The Commission shall submit proposals to the Council for implementing the common commercial policy.</p> <p>3. Where agreements with third countries need to be negotiated, the Commission shall take recommendations to the Council, which shall authorise the Commission to open the necessary negotiations</p> <p>The Commission shall conduct these negotiations in consultation with a [special committee] appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it.</p> <p>4. In exercising the powers conferred upon it by this Article, the Commission shall act by a qualified majority.</p>	<p>1. The common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies.</p> <p>2. The Commission shall submit proposals to the Council for implementing the common commercial policy.</p> <p>3. Where agreements with one or more States or international organisations need to be negotiated, the Commission shall make recommendations to the Council, which shall authorise the Commission to open the necessary negotiations.</p> <p>The Commission shall conduct these negotiations in consultation with a [special committee] appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it.</p> <p>The relevant provisions of Article 228 shall apply.</p> <p>4. In exercising the powers conferred upon it by this Article, the Commission shall act by a qualified majority.</p>

(bold characters added by the author)

In sum, article 113 describes the steering function of the Commission in international trade negotiations, as well as the role of the Council and of its important [Committee 113] during such negotiations. The latter article has entitled the European Community to participate in several

GATT⁵-rounds and to conclude free trade agreements between the EEC and its trade partners, as for instance in 1972-73 between the Community and the EFTA⁶-countries.

Beyond free trade agreements, the European Community has signed a series of so-called association agreements. These agreements are not confined to trade as such, but include a 'deeper' relationship with the Community. For the Treaties of Lomé between the Community and the ACP-countries⁷, a specific legal basis was laid in the Treaty of Rome in the articles 131-136 on 'Overseas Territories' and in article 238 referring to association agreements.

The clauses on development co-operation were with the Treaty of Maastricht adapted to the post-colonial status of most former overseas territories. Articles 131-136 of the Treaty of Rome in general and the Lomé-agreement in particular have since the Treaty of Maastricht been legally integrated in articles 130u-y of the amended Treaty on the European Community (EU/EC) and in article 238.

Article 238 enables the EC to conclude association agreements. As trade matters are concerned, the degree of reciprocity, mutual rights and obligations generally depend on two non-exclusive factors:

- 1) the preferential historic, economic and political status of the EC's partner (countries);
- 2) the level of economic development of the partner (countries).

For instance, although some African countries have attained the same level of development as a number of South Asian countries, the African countries will be treated more preferentially in the form of more trade privileges and more development aid.

As for the so-called Europe-agreements with Central European countries, such as the association agreement with Greece in 1961 for instance, the future possibility of membership has been explicitly ('Europe agreements') or implicitly (Greece) linked to the agreements depending on the fulfilment of economic and political conditions.

This does not mean that inter-European association agreements must lead to membership. In the association agreement with Turkey of 1963 and 1995⁸, the possibility of membership in the nearer future is neither mentioned nor was it intended by the EC-contracting party when concluding the agreement.

Institutionally, association agreements require unanimity in the Council and the consent of an absolute majority of the members of the European Parliament.

⁵General Agreement on Tariffs and Trade

⁶European Free Trade Agreement; 7 members in 1973: Austria, Finland, Iceland, Norway, Sweden, Switzerland, Portugal

⁷(70) developing countries in (Sub-Saharan) Africa, with the exception of South-Africa, the Caribbean and the Pacific; basically former colonies of the EU-member states

⁸the latter establishing a customs union between the EC and Turkey

1.2 General Agreement on Tariffs and Trade / World Trade Organisation (GATT/WTO)

The European Treaties, as well as the trade agreements concluded by the Community are based on the GATT (WTO) stipulations. As for our matter, we refer to the two major goals.

As ideal-world aim, world trade

1) should be liberalised by gradually abolishing quantitative restrictions, reducing tariff rates and eliminating non-tariff barriers to trade.

In the mean time,

2) discrimination between trade partners must be avoided by applying by the most-favoured nation (MFN) clause.

The latter implies that privileges granted to one particular trade partner, must be reciprocally extended to all other partners. The MFN-principle does not apply to trade relations with developing countries, as the latter can benefit from preferential, non-reciprocal treatment.

However, the GATT allows for a number of exceptions to the rules (article XXIV GATT). The European Community being a customs union, legally derogates from the MFN-principle. The member states have granted to one another more trade privileges than to third, i.e. non-EU trade partners.

Furthermore, the more preferential treatment of the ACP-countries under the Lomé Treaties compared to the treatment of other developing countries at a similar economic stage, has been justified by the Community on a similar theoretical basis. As the Community considers the Lomé agreement as an intermediary step towards a free trade area, the Community argues that a more privileged status of the Lomé countries is in accordance with GATT (WTO) rules.

However, notwithstanding gradual progress with the reduction of tariffs and quotas and with the removal of a number of NTBs on world trade since the signing of the GATT, and notwithstanding further progress during the past Uruguay Round⁹, the above-mentioned ideal-world aim has remained valid.

Free trade is mostly hindered by a wide series of non tariff barriers to trade, that are in many cases based on a restrictive conception of reciprocity. The EU considers reciprocity as one of the pillars of its trade relations with industrialised countries, including newly industrialised countries. Tariff preferences or extensive market access must be equalised by a corresponding policy from the side of the trade partner.

⁹inclusion of agriculture, services, intellectual property in the world trade regime; phasing out of restrictions on trade in textiles and clothing; agreement on World Trade Organisation

Important balance of payments deficits are consequently blamed on a lack of reciprocity. However, not reciprocity but competitive advantage has often become the main reason of trade deficits. Nevertheless, the latter have in the past led to excessive administrative procedures, severe anti-dumping policies and an inflation of agreements on 'voluntary export restrictions' (VERs) and 'orderly market arrangements' (OMAs).

However, according to UNCTAD¹⁰, the developing countries are more hurt by trade restrictions compared to industrialised countries. According to a 1990 study, 25% of all exports from developing countries to industrialised countries were hindered by NTBs, compared to 15 % of all exports from industrialised countries. The trade advantages, e.g. in the form of lower tariffs and higher quotas, have in many cases been nullified by administrative protectionism.

As a number of developing countries, especially in Latin-America, North-Africa and South-East Asia tended to become more competitive in trade in labour-intensive products, threatening traditional industries and mass employment in industrialised countries, the latter used to react by trying to protect themselves from world-wide competition by imposing import tariffs, quotas and NTBs.

In the case of textiles and clothing, a multi-fibre agreement (MFA) was concluded in order to restrain trade from developing countries (and to limit the loss of jobs in industrialised countries).

However, the future looks better for free trade. After the Uruguay Round agreement on the phasing out of the MFA by the year 2004, it is not excluded that the opportunities for sustainable development have been enhanced.

2. The European Union as a Trade Partner

In this chapter, we will deal with the EU as a trade partner. The content and the effectiveness of the different agreements underlying the Union's trade relations will be examined. The most relevant question is to what extent the trade regimes have affected and affect trade patterns.

The EU is foremost its own trade partner. Intra-EU trade, i.e. trade among the member states, accounts for about 70% of total EU trade¹¹. However, this does not mean that trade with third countries is of little importance, certainly not when considered from the perspective of these non-EU trade partners.

Table 1 illustrates the importance of the EU (i.e. its member states combined) as a trade partner, from the perspective of the different trade partners as exporters and as importers on the one hand and from the perspective of the EU as importer and exporter on the other hand.

¹⁰United Nations Conference on Trade and Development; UNCTAD-IX took place in Johannesburg, South-Africa in May 1996

¹¹ 15 members states; 1996

Table 1: The EU as trade partner

EU-10, 1992 (%)	Exports to EU as share of total exports	EU imports (extra+intra)share of trade partners	Imports from EU as share of total imports	EU exports (extra+intra)share of trade partners
EFTA-7	61 (EEA=73)	10 (EEA=68)	62 (EEA=76)	10 (EEA=72)
Eastern Europe + Soviet Union	45	3	42	3
United States	23	7	15	6
Japan	29	7	11	2
Africa	57	3	47	3
Latin America	24	3	17	2
Asia	16	8	15	8

Source: Eurostat (1994); own calculations

Table 1 indicates that the EU is an important, if not the most important trade partner for the different country groups that are referred to. Simultaneously, it illustrates the importance of the common commercial policy and of the evolution of the latter for the economies of the Union's trade partners. Hence, the initial apprehension in administrations around the world about the effects of the completed internal market on the EU's external relations. Such fear was not totally unfounded, when considering for instance the importance of the EU-market for African countries. A 'Fortress Europe' would have caused serious damage to their economies. Any countervailing measures from African side would have little effect, as the above figures show.

In general, the import and export figures transmit a similar message about the weight of the respective trade partners from the EU's perspective on the one hand and from its partners' on the other.

The Japanese-EU relations are the major exception to the rule. Comparing the EU as exporter and as importer from the perspective of its trade partners, one can notice in the case of the EU-Japanese relationship a remarkable difference. Whereas in 1992 the EU was, along with the United States, the major export market for Japan (Japanese imports into the EU), the EU ranked only third at a distance behind Asia and the United States as importer (EU imports into Japan).

However, as stated above, the EU is mostly its own trade partner. As far as the external trade relations are concerned, table 2 depicts figures for 1980 and 1994 (EU-12). The relative importance of the (former) EFTA countries for the Western European economy, as well as the logical interest for EFTA-countries to join the internal market¹² appears clearly. Free Trade Agreements (1972-73) and the European Economic Area (1994) were the logical consequences.

Table 2: Extra-EU trade: share of exports and imports

Extra-EU Trade (EU-12)	% Exports		% Imports	
	1980	1994	1980	1994
EFTA-7	25.5	22.0	17.0	22.8
Central and Eastern Europe, incl. former SU	7.6	9.0	6.9	9.1
United States	12.8	17.6	16.9	17.1
Japan	2.2	4.9	4.9	8.9
ACP	7.9	2.8	7.4	3.4
Mediterranean Basin	13.4	10.2	8.3	7.8
Latin America	6.1	5.2	5.8	4.9
OPEC	18.1	6.9	27.2	7.6
ASEAN, incl. Singapore	2.5	5.1	2.5	5.5
NIC-4, incl. Singapore	2.6	7.5	3.5	6.1
China	1.2	2.3	0.9	4.2

Source: Eurostat (1994, 1996); own calculations

As far as extra-EU trade was concerned in 1994, the then seven members of EFTA¹³ absorbed about 1/4 of the external EU trade. The United States is the single most important trade partner of the EU. As also shown, there is a significant discrepancy between the EU export share and the EU import share in the case of Japan.

In the next section, we will briefly analyse the different external trade regimes of the EU. The different trade agreements can be depicted in the form of pyramids. We will draw two pyramids, one for the industrialised world, the other for the developing countries. The more one moves down on the pyramid, the less preferential trade treatment the EU concedes.

¹² membership of the EEA and/or of the EU

¹³ Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, Switzerland

As far as the industrialised countries are concerned, the European countries benefit from the most advantageous trade regime: for commercial reasons (EEA) and for political reasons (future members: former EFTA-countries, Central European countries).

As far as the developing countries are concerned, two groups benefit from most unilateral privileges: the ACP-countries (mostly for historical reasons) and Mediterranean countries (for political reasons). The 'near-developed' NIC-4¹⁴, have quasi-MFN status.

3. EU Trade Relations with Industrialised Countries

In the trade pyramid, the EFTA-members of the European Economic Area are situated on top, followed by Central and by Eastern European countries¹⁵. Non-European industrialised countries benefit from the least privileged treatment, i.e. MFN-treatment.

Trade Pyramid

EEA/EFTA
Central Europe
Eastern Europe
United States of America
J a p a n

3.1 European Economic Area (EEA)

All member states of the European Union and of the European Free Trade Association¹⁶ but Switzerland have been joined in an enlarged internal market, the so-called European Economic Area, since 1 January 1994¹⁷. Consequently, the free trade agreement for manufactured goods that was concluded in 1972 between the EEC and Switzerland (and other EFTA countries) still applies.

On the one hand, the EFTA-3 countries¹⁸ can be considered as near economic members of the EU. These countries enjoy the four freedoms of the single market: free movement of goods¹⁹, services, capital and people. The coming into force of the EEA-agreement led at EFTA-side to the establishment of the Surveillance Authority and the EFTA Court. The competence of the latter institutions in the area of competition and state aid policy can be compared to the competence of the European Commission and the Court of Justice.

¹⁴NIC = Newly Industrialised Countries; NIC-4 = Hong Kong, Singapore, South-Korea, Taiwan

¹⁵For reasons of simplification, Switzerland is not mentioned. It benefits from more privileges than the US and Japan, but from less than the Central European countries that concluded 'Europe agreements' with the EC.

¹⁶after rejection of the agreement by the Swiss voters on 6 December 1992

¹⁷Liechtenstein became a member on 1 May 1995.

¹⁸EFTA-3: Iceland, Liechtenstein, Norway

¹⁹except for agricultural products

Further, in the areas of technical standards, social, environment, research & development, education and advanced learning policies, there will be close co-operation between the EU and the EEA/EFTA countries.

On the other hand, while the latter countries were²⁰ (and are) required as EEA-members to adopt most EU policies on competition, mergers, state aid, consumer protection, labour markets and the environment, they have negligible power as far as EU decision making is concerned. At most, they can shape EU decisions which reduces them to rather passive members. As a matter of fact, the EEA/EFTA countries have (only) advisory status in the multitude of EU committees (Kerremans 1992).

The EEA/EFTA countries have limited negative powers. If an EFTA country objects to the implementation of EU legislation in the EEA, and if no agreement is reached²¹, the legislation will not apply beyond the EU (EEA art. 105, 109). A collective EEA/EFTA veto to Court of Justice rulings (EU) on the EEA will lead to a similar result.

The confined political weight of the EFTA countries within the EEA mechanism was the main motive for the governments of Austria, Finland, Norway and Sweden to apply for full membership in the course of the EEA negotiations. Austria, Finland and Sweden eventually substituted EU membership for EFTA membership.

Although the economic integration between EU-15 and EFTA-3 is quite advanced, it is not complete. First, the EEA is not a customs union, but a free trade area. Consequently, there is no common commercial policy. Practically, lacking common customs rules and deviating VAT and excise duties rates will lead to the persistence of physical trade barriers and to a incomplete integration of EFTA-3 in the internal market.

Second, trade in agricultural product has not been integrated. More progress has been achieved in the area of fish trade, which is of vital importance to a country such as Iceland. Consequently, the WTO-rules rather than the EU-rules on the common agricultural policy will apply to agricultural trade.

Third, as far as structural policies are concerned the EEA/EFTA countries have agreed to contribute to specific education and environmental programmes in the four most disadvantaged EU-member states²², without being entitled to any structural aid in return. The latter situation changed with EU membership. For instance, whereas Austria, Finland and Sweden were not entitled to any structural aid as EEA/EFTA-members, a specific structural programme for the Nordic areas of the Scandinavian countries²³ was agreed upon during the EU-membership negotiations.

On the one hand, when comparing the benefits to the costs of the Scandinavian participation in the EU structural policies, the result could not but be more negative than during EEA/EFTA membership. Indeed, on the expenditure side, membership has led to full co-financing by the new members of all structural policies.

²⁰This meant the adoption of about 1,400 pieces of EU legislation, compiled in 12,000 pages.

²¹in the Joint Committee

²²Ireland, Italy, Portugal, Spain

²³'objective 6'-programme

On the other hand, politically, the balance of EEA/EFTA membership on the one hand and EU membership on the other shifts to the advantage of the latter. As a matter of fact, the decision to set up a specific structural programme for Nordic countries became only possible with the accession of Finland and Sweden to the EU, and not sooner, i.e. during these countries' EEA/EFTA membership.

3.2 Europe Agreements

For a number of observers, the EEA model could be applied to some Central European countries during their transition to EU membership.

The collapse of communist regimes in Central and Eastern Europe led to a surge in the relations between the EU on the one hand and most of the Central and Eastern European countries (CEEC) on the other (Commission 1993). Since 1989, a number of agreements have been signed: between the EU and a range of CEEC:

- 'Partnership and Co-operation Agreements' with Russia (1994) and a number of former Soviet republics. Their scope reaches beyond mere trade. The agreements focus on political dialogue (e.g. on security issues and democratisation), economic reforms (e.g. TACIS²⁴), commercial activities (gradual trade liberalisation) and cultural issues.

- the so-called 'Europe Agreements': association agreements with a number of Central European countries. The agreements contain a chapter on future EU-membership. Symbolically, the leaders of the associated countries have been invited since the European Council of Copenhagen in June 1993 at the bi-annual European Council meetings to discuss economic and political issues of common interest.

The first agreements were signed on 16 December 1991 with Hungary, Poland and Czechoslovakia²⁵. This latter group has been subsequently enlarged with Bulgaria, Romania, Estonia, Latvia, Lithuania and Slovenia. It is expected that the first group of countries and Slovenia will be next to join the Union.

As far as trade is concerned, the Europe agreements deepen other post-Cold War economic and commercial agreements. They have established a free trade area for industrial goods. The agreements are asymmetrical which implies that the Central European countries are allowed up to ten years to remove economic and commercial barriers, whereas Union restrictions on the import of industrial goods were removed after five years except for textile and steel.

Imports into the EU should be tariff-free by the end of 1997, with a major exception for agricultural trade. Progress in the latter area must be expected from multilateral liberalisation (WTO) and from the widening of bilateral quotas. As for the import of steel products, importers might continue facing difficulties because of restrictive EU anti-dumping and anti-state aid policies. The latter are linked to the Union's own oversupply problem.

²⁴ 'Technical Assistance to the Commonwealth of Independent States'

²⁵ The partition of Czechoslovakia on 31 December 1992 led to two new association agreements between the EU on the one hand and the Czech and the Slovak republic on the other (October 1993).

As steel, textiles and agriculture represent major export products for Central European countries into the EC²⁶, increasing market penetration is a major issue for these countries. Hence the associated countries' initial disappointment with the restrictive Union policy which was perceived as protectionist in a number of sensitive areas.

3.3 United States, Japan: MFN

Basically, the trade relations with the United States and Japan are ruled by the Most Favoured Nation clause (MFN). However, sectoral trade deficits (EU-US) and structural balance of payments problems (EU-Japan) have led to an inflation of bilateral arrangements.

Table 3 depicts the EU-trade balance deficits and surpluses in 1994, in absolute terms (billion ECU) and related to total EU-trade.

Table 3: EU Trade Balance (TB)

EU Trade Balance, 1994	bn ECU	TB as % of total trade
EFTA-7	-4.3	-1.8
Central and Eastern Europe	-0.4	-0.4
United States	2.4	1.3
Japan	-21.8	-29.0
ACP	-3.7	-11.0
Mediterranean basin	12.4	12.7
Latin America	1.7	3.1
OPEC	-4.3	-5.5
ASEAN	-2.0	-3.4
NIC-4	7.7	10.4
China	-10.2	-29.0

Source: Eurostat (1996); own calculations

²⁶e.g. more than 40% of the Polish and Hungarian export value into the EU

Whereas friction with the US has arisen over commercially rather marginal but politically sensitive goods²⁷, tensions with Japan have been caused by the EU accusing Japan of resorting to NTBs in order to hinder and prevent free trade. NTBs would have led to an unjustifiable Japanese trade advantage (Molle 1994). VER-arrangements for cars, electronics, steel, machinery are considered an intermediary but necessary step towards the structural reduction of the balance of payments deficit.

Continuous pressure from the United States and other trade partner led to an agreement on agricultural trade during the Uruguay Round. The EU has committed itself to substantially reducing its direct and indirect subsidies²⁸ to European farmers over a period of six years. The reduction of export subsidies and import levies should lead to less trade distortions, i.e. to more equitable trade conditions on the European agricultural market. Agricultural trade has become an integral part of multilateral trade arrangements since the Uruguay Round. It has become subject to WTO-supervision.

Where the EU took a rather defensive position during the Uruguay Round discussions on trade in agricultural products, in other areas, however, the EU proved to be more free trade-minded than the United States, for instance. As far as trade liberalisation (e.g. services) and global regulation were concerned, the EU appeared to be far less reluctant from the start of the Uruguay Round, as compared to its major trade partners.

4. EU Trade Relations with Developing Countries

The African, Caribbean and Pacific (ACP) countries of the Lomé group belong to the most privileged developing countries, in terms of trade conditions and development aid. On the trade pyramid, the ACP-group is followed by a group of Mediterranean countries. Further down on the pyramid, one finds Latin-American and a number of Asian less-developed countries (LDCs). As the 4 strongest Asian newly industrialised countries (NICs) differ substantially from the other LDCs, they are situated on the bottom of the trade pyramid. Basically, their trade regime with the EU differs only to a limited extent from the MFN-regime.

Trade Pyramid

A C P
Mediterranean. countries
Latin American, Asian LDCs
Asian Newly Industrialised Countries

²⁷ mostly agricultural products

²⁸ on average -36%

4.1 Treaty of Lomé

In December 1989, the fourth Treaty of Lomé was signed between the EEC and 69 ACP countries for a period of ten years (Lomé IV)²⁹. There are now 70 ACP countries. For the period 1990-95, 12 billion ECU had been allocated to the 7th European Development Fund (EDF VII)). After long and difficult negotiations at the European level, 14.6 billion ECU was agreed upon for EDF VIII (1996-2000).

When considering

- 1) the increasing needs of the ACP countries that have to allocate a stagnating wealth to a steadily growing population,
- 2) the yearly (slight) monetary depreciation (in the EU),
- 3) the access of three new and LDC-oriented countries to the EU,

the amount of development aid allocated by the EU countries to EDF VIII cannot be considered a progress, when compared to the money spent on EDF VII.

EDF VIII symbolises a certain donor fatigue in general and a profound, not unjustified, questioning of the efficiency of the Lomé treaty in particular.

The Lomé convention stresses the importance of trade as a catalyst for sustainable development. As far as manufactured goods are concerned, an ACP product enters the EU duty free, provided 45% of the product originates from the EU-ACP area.

As far as agricultural products are concerned, a distinction must be made between CAP³⁰-products and non-CAP-products. The latter can be imported duty free and benefit from a more preferential treatment compared to products originating from other LDCs. The controversial banana import regulation is a well-known illustration of the latter treatment. For CAP-products, the bulk of ACP-agricultural exports, as a rule, ACP-imports into the EU are not favoured. However, for a certain number of products, specific arrangements apply to certain products³¹ (ACP-EEC Treaty art. 168). Furthermore, the CAP-regulations do not apply to out-of-season ACP-imports.

In order to protect ACP-countries from the potentially harmful world market price fluctuations, the EU partially compensates the ACP-countries for revenue losses caused by decreasing world market prices through its Stabex (agriculture) and Sysmin funds (mineral products), provided specific conditions are met³².

²⁹Lomé I was signed in 1975 for a period of 5 years, just as Lomé II and III. The Lomé treaties were preceded by Yaoundé I (1963) and Yaoundé II (1969).

³⁰Common Agricultural Policy (EC)

³¹such as import quotas for beef, rice, rum and sugar.

³²continuous and minimum price decrease and export share

The Stabex and Sysmin funds reflect the New International Economic Order philosophy that dominated international political economy thinking in the sixties and seventies. Stabilised exports revenues through guaranteed commodity prices were considered an efficient instrument that would enable developing countries to sustain their development process.

Twenty years after the first Lomé Treaty came into effect, it is worthwhile to examine the results of the positive discrimination policies favouring a majority of the least developed countries. For that purpose, the extra-EU import shares in 1980 and 1994 are compared in table 2.

Despite a more favourable trade regime (albeit often for products with a low export share), the weight of the ACP-countries dropped sharply over a period of 15 years. As of today, its share has become almost insignificant. At first sight, after looking into the performances of other LDCs, one would be tempted to draw an inverse conclusion: the less favourable the trade regime, the better the trade performance.

Indeed, whereas in 1980 the ACP, Latin American, Mediterranean and Asian (ASEAN + NIC-4 + China) countries were equally important trade partners for the EU, the picture looks quite differently in 1994. The share of the Asian group equalises the sum of the weight of the ACP, Latin American and Mediterranean groups. The double counting of Singapore³³ hardly changes the picture. Paradoxically, the Asian countries benefit from the least advantages. Their trade regime with the EU varies from GSP regime (ASEAN) to near-MFN regime hindered by NTBs (NIC-4).

Table 4: EU Imports: non-manufactured and manufactured goods

Share in %, 1994 Extra-EU Imports	Non-manufactured goods	Manufactured goods	Unspecified
ACP	72.8	24.7	2.5
Mediterranean Basin	43.5	52.0	4.5
Latin America	68.0	29.2	2.8
OPEC	77.5	18.2	4.3
ASEAN	18.6	79.3	2.1
NIC 4	1.7	96.5	1.8
China	8.9	90.6	0.5

Source: Eurostat (1996); own calculations

³³ ASEAN and NIC-4 country

However, the Asian countries have managed to diversify their exports at a remarkable speed. As table 4 illustrates, in 1994 about 90% of their exports are composed of manufactured products which world prices are far less prone to erosion. The sharp decrease over a period of 15 years of the OPEC-countries' share of extra-EU imports illustrates at best the weak position of a trade partner that does not manage to diversify its exports, remaining dependent on export of agricultural products and raw materials.

4.2 Trade relations with Mediterranean countries

The Mediterranean countries have an intermediary position on the trade pyramid. Although the Mediterranean economies are structurally comparable, the EU has signed varying agreements with the different (12) countries.

However, the Partnership Declaration of Barcelona of November 1995 aims at more harmonised agreements between the EU on the one hand and the Mediterranean group on the other. The target is to create by 2010 a free trade area between the EU on the one hand and Algeria, Morocco, Tunisia, Egypt, Israel, Jordan, Lebanon, the Palestinian autonomous territories, Syria, Turkey, Cyprus and Malta on the other.

The increasing repercussion of political and military events in the region on the political and social stability in the EU has led to the instauration of political dialogue, along with increasing flows of aid money and loans to the region.

Furthermore, it is expected that the Mediterranean countries will benefit from the WTO-liberalisation of trade in agricultural products, textiles and clothing. To conclude, the Mediterranean countries might climb on the pyramid of preferences and thus erode the privileged status of the ACP-countries.

As for now, varying agreements apply to different Mediterranean countries. As a rule, EU-imports into the region are subject to MFN-treatment³⁴, whereas Mediterranean exports of finished and semi-finished goods have free access into the EU. So-called sensitive products³⁵ are subject to quotas. However, these quotas are more liberal than the ones applied by the Multi-Fibre Agreements with other developing countries (Hitiris 1994).

Most agricultural exports are CAP-products. However, agricultural commodities that are produced in the EU but at a non-self-sufficient level, can be exported duty-free up to specific quotas. Mediterranean exporters enjoy for non-CAP-products more favourable quota and lower tariffs (if any) than their Latin American and Asian counterparts.

To summarise, Mediterranean countries are treated less favourably than Lomé countries but better than other LDCs to which the GSP-system applies.

³⁴ no better treatment than other trading partners

³⁵ e.g. textiles and clothing, refined petroleum

Four Mediterranean countries have concluded more advanced agreements with the EU: Turkey, Malta, Cyprus and Israel. Turkey has formed a customs union with the EU, which will imply unhindered free trade, adoption of the Community's common customs tariff and the EC rules on state aid, competition and trade. The possible EU-members to be, Cyprus and Malta, have signed association agreements with the EU. A customs union with Cyprus will be completed by 1997. Maltese membership has become less certain for the nearer future after the national elections of November 1996 that led to a victory of opponents of EU-membership. Israel and the EU are linked to one another by a free trade agreement. Trade between the two partners is subject to reciprocity (MFN).

4.3 Trade relations with other LDCs: Latin American and Asian countries: GSP

Most other developing countries are treated on a non-preferential basis (McAleese 1994). The Generalised System of Preferences (GSP) indicates the degree of duty free access for export of manufactured goods, and to a limited extent of non-CAP agricultural products, to the EU.

Manufactured products have non-reciprocal duty-free access to the EU. However, quota ceilings are applied on so-called sensitive products. The height of the quotas depend on the degree of market penetration, the specificity of the product and the country of origin. Beyond the quotas, the full CET applies resulting in MFN-treatment.

As sensitive products are concerned, GSP for textiles and clothing are conditioned by the MFA (until 2004).

Despite its name, the GSP, which was introduced within UNCTAD (1971) as another step towards a New International Economic Order, is not a unique, generalised, system. First, all developed country have adopted their specific GSP-version. Second, different GSPs apply to different developing countries. The EU's GSP involves something of the order of 40,000 different quotas and ceilings.

As illustrated by the pyramid of trade preferences, despite the GSP, not all LDCs are treated with the same degree of generosity by the EU. As a rule, the least developed countries benefit from more advantages compared to countries that are better-off. A major reason is the harmless effect of free trade between the EU and the former countries, in terms of short-term employment loss and erosion of competitive advantages.

Whereas countries like Bangladesh, Haiti and Afghanistan enjoy special advantages such as duty-free access for some agricultural products and remission of quotas, NICs like South-Korea and Taiwan are subject to reciprocity rules and a host of NTBs³⁶. Still, manufactured imports from LDCs, and in particular from East-Asian and some Latin-American LDCs have continued to grow³⁷.

³⁶ VERs, quotas, national/EU safeguard and anti-dumping measures

³⁷ cf. table 2, 4

Although the limitations of the GSP are most obvious when applied to the four South-East-Asian NICs (NIC-4), its general impact remains low considering the over-all low tariffs on EU-imports and the expected decrease of tariffs on the import of agricultural products, textiles and clothing and other goods since the conclusion of the Uruguay Round.

In the future, LDCs should benefit more from the reduction of NTBs and slimming down of administrative complexities than they did from the GSP in the past.

5. Conclusion: Prospects

In the final, concluding chapter, some achievements in the area of trade regimes and trade liberalisation on the European and the global level will be described. Some major differences between the European internal market and the and the world market since the Uruguay Round will be stressed. Finally, the future position of the LDCs within the EU trade regimes will be mentioned.

5.1 EU Trade Regimes

Three major EU-trade regimes are depicted in table 5. In terms of reciprocity, the most advantaged trade partners³⁸ can be found in the Lomé column. Not totally coincidentally, the least reciprocity applies to countries with the lowest general market penetration.

Table 5: EU Trade Regimes

Trade regime	Lomé	GSP	MFN
non-reciprocal	yes	yes	no
specificity	regional approach; income support	differentiation	
agriculture	duty-free, except CAP (some exceptions)	tariff reductions for most non-CAP	CAP-restrictions; reciprocity
manufactured goods	duty free	mostly duty free	reciprocity

Barriers to trade: agriculture (CAP); textiles and clothing (MFA); anti-dumping policy; quota; VERs; NTBs

³⁸ i.e. the trade partners that do not have to respond preferential treatment with the same degree of generosity

If a more detailed table were drawn, the Mediterranean countries would be found in a column between the Lomé countries and most other LDCs. The most advanced NICs would be located at the extreme right of the GSP column.

Reciprocity applies in general to industrialised countries. With respect to the latter, the extent to which the four freedoms of the internal market apply³⁹ is a good indication of the degree of integration between the EU and its industrialised partners. For an example of the latter, it suffices to refer to the EEA-agreement concluded between the EC (the Community and its member states) and three EFTA countries.

5.2 World Trade Liberalisation

The EU's internal market was formally completed on 1 January 1993. One year later, on 15 December 1993, the Uruguay Round came successfully to an end. Quite bombastically, one could state that after the completion of a first internal market on a regional level, first steps have been made towards the realisation of an internal market on the global level.

There is a certain degree of parallelism between the transformation of a common market into an internal market on the one hand and the gradual liberalisation of world trade on the other. One of the major achievements of the Uruguay Round is the agreement on the application of global trade regulations on sectors that were excluded before like agriculture, textiles, clothing and services. The importance of the integration of the latter sectors cannot be sufficiently stressed. So-called 'sensitive' sectors of the economy that are of crucial importance for the (further) development of local economies and of the world economy⁴⁰ have become subject to the supervision and arbitration of the WTO.

Still, much work needs to be done yet. As the recent agreements on the liberalisation of world trade are to a great extent of a theoretical nature, mentioning principles to be honoured and goals to be achieved, more activity is needed to achieve true liberalisation.

As tariff barriers have become even more significant since the Uruguay Round⁴¹, vigilance is further required with respect to NTBs. The positive message is that more transparency has been achieved. The anti-dumping rules have been made more restrictive, the rules on subsidies and countervailing measures more precise. Unilateral measures will only be allowed if they abide by the WTO-rules. Specific rules have been adopted on trade-related aspects of intellectual property rights (Großmann et al. 1994).

³⁹ goods, services, capital and labour

⁴⁰ e.g. textiles and clothing for the sustainable development process of a number of LDCs, services at first instance for the more developed economies, but at an increasing rate also for the global economy

⁴¹ The Uruguay Round concluded with an agreement on a further 30% reduction on duties.

5.3 No Global Internal Market

However, it is still a long road to a true free-trade world. It will need a lot of deregulation in order to have an internal market on the global level. The following illustrations indicate major differences between the EC-internal market on the one hand and the world market since the Uruguay Round on the other. First, some sectors remain subject to special derogatory arrangements⁴². Second, the WTO is not competent for competition regulation, social standards, environment and health protection. Third, the rules on countervailing measures allow for enough 'flexibility' to be interpreted in a protectionist way.

Furthermore and beyond specific sectoral exceptions, the political and economic reality as such will result in the continuous predominance of national and regional powers. However, the creation of a global supervisory and regulatory body (WTO) will offer an indispensable counterweight to the increasing importance of regional trade agreements and policy bodies. The World Trade Organisation might succeed in removing some fears for escalating trade wars between regional entities and for the coming into existence of regional trade 'fortresses'.

5.4 World Trade Liberalisation and EU Trade Regimes with LDCs

To come back to the EU and its trade partners, the continuous world trade liberalisation should lead to benefits for all parties. The further lowering of tariffs and the integration of so-called sensitive sectors in the global trade regime should highlight the (positive) importance of competitiveness and the (detrimental) effects of NTBs in determining market penetration. It is expected that the impact of the developing world as a group will continue to grow with the removal of a number of trade barriers.

At the same time, it is feared that the gap between the marginalised countries and the other LDCs will continue to grow. Indeed, Sub-Saharan Africa might only experience the disadvantages of the liberalising world, which will be most obvious in the form of increasing food prices, without benefiting from the advantages. Most countries on the black continent and other commercially marginalised countries will remain to a smaller or larger extent dependent on development aid for mere humanitarian, economic and political survival. As far as aid is concerned, a focus on the gradual integration in the global economy⁴³ remains as imperative as before. Specific agreements such as a revised Lomé convention will continue to make sense, provided a number of good governance and economic liberalisation criteria are fulfilled.

⁴² civil aircraft, public procurement, dairy products, beef

⁴³ starting with the fulfilment of basic needs

Abbreviations

ACP	African, Caribbean, Pacific countries (cf. Lomé)
ASEAN	Association of South East Asian Nations
CAP	Common Agricultural Policy
CCP	Common Commercial Policy
CEEC	Central and Eastern European Countries
CET	Common External Tariff
EC	European Community
EDF	European Development Fund
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EU	European Union
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preferences
LDC	Less Developed Country
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nation
NIC	Newly Industrialised Countries
NIC-4	(Hong Kong, Singapore, South Korea, Taiwan)
NTB	Non-Tariff Barrier to Trade
OMA	Orderly Market Arrangement
OPEC	Oil Producing Exporting Countries
TACIS	Technical Assistance to the Commonwealth of Independent States
UNCTAD	United Nations Conference on Trade and Development
VER	Voluntary Export Restriction
WTO	World Trade Organisation

Tables

1. The EU as Trade Partner (p. 8)
2. Extra-EU Trade: Share of Exports and Imports (p. 9)
3. EU Trade Balance (p. 13)
4. EU Imports: Non-Manufactured and Manufactured Goods (p. 16)
5. EU Trade Regimes (p. 19)

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